Mullen Group
INCOME FUND

2006 FINANCIAL REPORT

CONTENTS

HIGHLIGHTS

- Revenues - $1.0 billion
- Net income - $128.1 million
- Basic earnings per unit - $1.86
- Distributions paid - $118.1 million
- Distributions declared - $124.0 million
- Unitholders' return on equity – 14.6 percent
- Debt to equity – 0.24:1

MULLEN GROUP INCOME FUND

2006 FINANCIAL REPORT

Forward-Looking Information

This report contains forward-looking statements which reflect management's expectations regarding the Mullen Group Income Fund's ("Mullen" or the "Fund") future growth, financial condition, results of operations, performance, business prospects, strategies and opportunities. Wherever possible, words such as "anticipate", "may", "will", "believe", "expect", "potential", "continue", "view" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and assumptions and are based on information currently available to management. Forward-looking statements involve significant inherent risks and uncertainties, numerous assumptions and the risk that the predictions and forward-looking statements will not be achieved and that the actual results or events may differ materially from those anticipated in such forward-looking statements. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. Although the forward-looking statements contained in this report are based upon what management believes to be reasonable beliefs and assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements. Some of the risks and uncertainties include, but are not limited to; certain economic risks, most important of which are a slowdown in the general economy or reduced oil or natural gas drilling; non-resident ownership; changes to the tax treatment of income trusts; prevailing interest rates; currency exchange rates; customer relationships, labour disruption and driver retention; accidents and costs of liability insurance; and fuel prices. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under Business Risks on pages 29 through 35. These forward-looking statements are made as of the date hereof and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") for 2006 should be read in conjunction with the 2006 annual consolidated financial statements ("2006 Annuals"). Additional information is available at www.sedar.com. All amounts are in Canadian funds.

OVERVIEW

General

Mullen Group Income Fund ("Mullen" or the "Fund") is an open-ended income fund that owns a network of independently operated businesses. Mullen is recognized as the largest provider of specialized transportation and related services to the oil and natural gas industry in western Canada and is one of the leading suppliers of trucking and logistics services in Canada – two sectors of the economy in which Mullen has strong business relationships and industry leadership. The Fund was formed on June 3, 2005 and commenced operations on July 1, 2005 as a result of the completion of a plan of arrangement (the "Plan") completed on July 1, 2005 under the *Business Corporations Act* (Alberta) involving, among others, the Fund, Mullen Transportation Inc. ("Mullen

Transportation" or the "Company"), Mullen Holding Trust ("MHT"), Mullen Group Inc. ("MGI" or the "Administrator"), and Mullen Acquisition Corp., pursuant to which, among other things, the Fund indirectly acquired all the issued and outstanding common shares of Mullen Transportation and reorganized certain of its subsidiary companies and partnerships into limited partnerships. Mullen is a publicly-traded income trust listed on the Toronto Stock Exchange under the symbol "MTL.UN".

The Fund was established for the purposes of acquiring or investing in the securities of MHT, MGI, MT Investments Inc., formally known as Mullen Transportation or any associate or affiliate thereof or any other entity involved in any business. Such business may involve the ownership, lease or operation of assets, property or businesses, related to the transportation, distribution or storage of freight or the provision of transportation, housing, drilling or other services related to exploration for or drilling, extracting, gathering, processing, transporting, buying, storing or selling of petroleum, natural gas, natural gas liquids, water, minerals or other related products, power or other forms of energy, and any and all related businesses.

The indirect subsidiaries of the Fund carry on the business of the Fund.

The unitholders are the sole beneficiaries of the Fund. CIBC Mellon Trust Company is the trustee (the "Trustee") of the Fund. The Fund is the sole shareholder of MGI. The Fund is not managed by a third-party manager. Pursuant to a delegation agreement, certain of the powers and duties of the Trustee have been delegated to the Administrator and pursuant to an administration agreement dated June 3, 2005 (the "Administration Agreement") the management and administration of the Fund has been delegated to the Administrator. Pursuant to this Administration Agreement, the Administrator, on behalf of the Trustee, may declare payable to the unitholders on a particular distribution record date all or any part of the cash flow of the Fund for a distribution period. Since the creation of the Fund, the Fund has made regular monthly cash distributions on the 15th day of each month (or the first business day thereafter) to holders of units of record on the immediately preceding distribution record date.

The Fund's audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The audited consolidated financial statements and MD&A were reviewed by the Administrator's Audit Committee on March 6, 2007 and approved by the Administrator's Board of Directors on March 6, 2007.

The Fund reports on certain non-GAAP measures that are used by management to evaluate performance of the Fund. Management believes these measures are useful supplemental measures. These non-GAAP measures do not have standardized meanings and may not be comparable to similar measures presented by other companies or income trusts. For the readers' reference, the definition, calculation and reconciliation of consolidated non-GAAP measures is provided in the "Glossary of Terms and Reconciliation of Non-GAAP terms" section of the MD&A.

Continuity of Interests

On June 30, 2005 the shareholders of Mullen Transportation approved the Plan that resulted in the Company's conversion to an open-ended investment trust called Mullen Group Income Fund. The Fund, as the successor in interest to the Company, is accounted for as continuity-of-interest. The audited consolidated financial statements of the Fund for the year ended December 31, 2006 and comparables for the prior periods will reflect the financial position, results of operations and cash flows as if the Fund had always carried on the business formerly conducted by the Company.

Summary Description of Business

The businesses of the Fund are operated through wholly-owned companies and limited partnerships collectively known as the “Mullen Group”. These operating businesses, which are owned indirectly by the Fund, are divided into two distinct business segments; Oilfield Services and Trucking/Logistics. The segments are differentiated by the type of service provided, equipment requirements and customer needs. The management and financial expertise, technology and systems support for the operating businesses is provided by the Administrator of the Fund. Oilfield Services utilizes its highly trained personnel to provide specialized transportation services, drilling services and well-servicing equipment and warehousing to the oil and gas industry. These services include drilling rig relocation services, conductor pipe setting, core drilling, shallow gas and coal-bed methane drilling, casing setting, transporting of oversize and overweight shipments, pipe stockpiling and stringing, the transportation, handling and storage of oilfield fluids, tubulars and drilling mud, dewatering services and a broad range of services related to the processing and production of heavy oil, including well-servicing and pumping, hauling and disposal of fluids. The Trucking/Logistics segment offers a diversified range of truckload and less-than-truckload general freight services to customers in Canada, the United States and Mexico, transporting a wide range of goods including general freight, specialized commodities such as cable, pipe and steel, over-dimensional loads such as heavy equipment, compressors and over-sized goods and dry bulk commodities such as cement and other dry bulk goods. In addition, the Trucking/Logistics segment also provides logistics, warehousing and distribution, transload and intermodal services in western Canada.

The Fund’s operations consist of 24 business units, each of which is operated as a separate business accountable for its own performance and profitability. The businesses utilize both their own equipment and the services and equipment of owner-operators and subcontractors. As at December 31, 2006, the Mullen Group owned or leased 1,649 power units; had access to an additional 1,115 power units under contract with owner-operators and dedicated subcontractors; and employed 5,350 drivers and field personnel. The Mullen Group also owned or leased 6,798 trailers (the vast majority of which are owned by the Mullen Group), which include vans, flatbeds, dry bulk, specialized trailers and temperature-controlled trailers. In addition, as at December 31, 2006, the Mullen Group owned 27 coring rigs, 23 auger drilling rigs, 3 dual rotary rigs and 6 single drilling rigs.

Materiality of Disclosures

Management determines whether or not information is “material” based on whether it believes a reasonable investor’s decision to buy, sell or hold securities in the Fund would likely be influenced or changed if the information were omitted or misstated.

Objective of the Fund

The objective of the Fund is to maximize the overall returns to unitholders in two ways. The first is by distributing income generated by the business in the most tax-effective manner allowed by the *Income Tax Act* (the "Tax Act"). The second is by growing the Fund’s business through the acquisition of profitable and well-managed businesses in the sectors of the economy where the Fund feels opportunities exist or where the Fund has strong market penetration and business experience, including the oil and gas service industry and the transportation and distribution of freight within the North American economy. Since going public in 1993, Mullen and its predecessor Mullen Transportation have acquired 35 businesses and have grown annual revenues to $1.0 billion in 2006 from $72.6 million in 1993.

Quality and Customer Service

The business of the Fund is managed on behalf of its unitholders based upon the principles of generating superior profitability and striving for excellence in safety. To achieve these two goals we have committed to the principles of Total Quality Management, which have been incorporated into our own program known as On the Road to Quality. This award winning program is based upon the foundation that our people are the key to the future success of Mullen. In support of this belief we seek to provide our employees with:

- A quality work environment
- On-going training and skills upgrading
- Career growth opportunities
- Effective technology to enhance systems and processes
- Incentive based-pay

Operating in a team environment, we challenge our employees to make decisions on all aspects relating to the operations of the business. By doing so, we believe that we can improve customer service, enhance business processes, maintain cost controls and obtain excellence in safety.

Operating Strategy

Our approach to managing the business, assets and cash flows of the Fund to achieve the maximum overall returns to unitholders is based upon the following strategy:

(1) Operate a decentralized business model - the Administrator provides overall support to the operating businesses, which are each held accountable for their own performance and results. The management and employees of these business units are remunerated and receive profit share based upon the performance of their business unit.

(2) Maximize asset utilization - utilizing a combination of company-owned and operated equipment, which are either acquired as an asset or under operating leases; owner-operator equipment; and by utilizing subcontractors on an as-needed basis.

(3) Invest in energy - investing in western Canada where the economic growth is higher due to the oil and natural gas and mining sectors of the economy and where we believe future growth opportunities exist.

(4) Make accretive acquisitions – acquire competing, complementary or new business lines that can accelerate our growth potential.

(5) Diversify – continue to grow and invest where opportunities exist in the two segments of the economy where the Fund has strong market penetration and customer relationships, namely the oil and natural gas industry and the transportation and distribution of freight within the North American economy.

(6) Maintain a strong balance sheet.

(7) Maintain a conservative payout over the life of a business cycle, we believe that our capital expenditures will approximate depreciation. A distribution of 75.0 percent of funds from operations has been considered appropriate for Mullen over the course of a business cycle; however, this could vary from year to year due to market conditions.

SIGNIFICANT DEVELOPMENTS

Trust Conversion

On June 30, 2005, the shareholders of Mullen Transportation approved the Plan that resulted in the Company's conversion to an open-ended investment trust called Mullen Group Income Fund. Pursuant to the Plan, shareholders received at their election, in exchange for each Company common share, either three Trust Units of the Fund or a combination totalling three Trust Units and/or exchangeable Mullen Co. Limited Partnership ("MCLP") B units ("B Units"), each of which is exchangeable for a Trust Unit.

Equity Issue

On January 12, 2006, the Fund raised $96.4 million of net equity with the issuance of 3,400,000 Trust Units (see Note 9 of 2006 Annuals).

Acquisitions and Dispositions

Continuing the Fund's strategy of acquiring profitable and well-managed businesses, the Fund completed eight acquisitions during the year. In the Oilfield Services segment, the Fund acquired Pe Ben Oilfield Services Ltd. ("Pe Ben"), Spearing Service Ltd. ("Spearing"), Burnell Contractors Ltd. ("Burnell"), Producers Oilfield Services Inc. ("Producers"), Canadian Dewatering Limited ("Canadian Dewatering") and Carl Brady Trucking Ltd. and Brady Sand & Gravel Ltd. (collectively "Brady"). In the Trucking/Logistics segment, the Fund acquired Pe Ben Bulk Transport Ltd. ("Pe Ben Bulk") by virtue of its acquisition of Pe Ben, C. Steen Trucking Ltd. ("Steen") and Kleysen Investments Limited ("Kleysen"). These acquisitions have been accounted for by the purchase method and results of operations have been included in the consolidated financial statements from the date of acquisition (see Note 2 of the 2006 Annuals).

On January 12, 2006, the Fund acquired the remaining outstanding shares of Pe Ben, a public transportation company for $56.0 million. The $56.0 million was comprised of $18.50 for each outstanding Pe Ben share, plus the original portfolio investment of $1.4 million incurred prior to 2006. Pe Ben operates a versatile fleet of specialized vehicles and equipment engineered to handle a broad range of commodities including oilfield construction equipment, storage tanks and oilfield tubular goods. Pe Ben also provides storage and field warehousing of drill pipe and casing for the petroleum industry. Results from Pe Ben's oilfield transportation and pipeline stringing operations are included in the Oilfield Services segment. Pe Ben Bulk is engaged in the transportation of liquid bulk petroleum and lubricants. Results from Pe Ben Bulk's operations are included in the Trucking/Logistics segment.

On February 28, 2006, the Fund acquired all of the outstanding shares of Spearing, Burnell and Steen for cash consideration of $31.7 million. Spearing's business, based out of Saskatchewan, involves the hauling of crude oil, produced water and other fluids associated with the production of crude oil. Burnell is a Calgary based company involved in providing specialized transportation services to the energy, pipeline, petrochemical and construction industries. The results from operations of Spearing and Burnell are included in the Oilfield Services segment. Steen is a flat deck carrier with operations based out of Edmonton. Steen's results from operations are included in the Trucking/Logistics segment.

On May 1, 2006, the Fund acquired all of the outstanding shares of Kleysen for consideration of $60.3 million and 154,875 Trust Units having a value of $5.0 million. Kleysen is a Winnipeg based transportation and logistics company offering four integrated services including bulk transportation, deck transportation, multi-commodity transload services and intermodal transportation services. Kleysen's results from operations are included in the Trucking/Logistics segment.

On June 1, 2006, the Fund completed a Plan of Arrangement (the "Arrangement") whereby it acquired all of the outstanding shares of Producers ("Producers Shares") by issuing 19,890,235 Trust Units and 11,182,275 B Units for a combined value of $1.0 billion. The Arrangement resulted in Mullen acquiring each of the Producers Shares on the basis of exchanging each Producer Share for either 0.4444 Trust Units or 0.4444 B Units. The outstanding options to purchase Producers Shares were exchanged for options to purchase Trust Units. Producers provides specialized oilfield transportation services to its customers in the oil and natural gas industry in western Canada. Producers consisted of three distinct business units; Formula Powell L.P. ("Formula Powell"), Swanberg Bros. Trucking L.P. ("Swanberg") and Withers L.P. ("Withers"). The results from operations of Formula Powell, Swanberg and Withers are included in the Oilfield Services segment.

On June 1, 2006, pursuant to the Arrangement, the Fund transferred its northern assets consisting of its interest in Beaufort Logistics Inc., Beaufort Oilfield Support Services Ltd. ("BOSS"), MacKenzie Delta Integrated Oilfield Services Ltd. ("MDIOS") and MacKenzie Valley Logistics Inc. to Horizon North Logistics Inc. ("Horizon"). The holders of the Trust Units and B Units on the date of the Arrangement were distributed 0.2878 of a common share ("Horizon Share") of Horizon and 0.2025 of a common share purchase warrant ("Horizon Arrangement Warrant") of Horizon for each Trust Unit or B Unit they held. Each whole Horizon Arrangement Warrant entitled the holder to acquire a Horizon Share at the price of $2.40 per share for a period of 30 days following the date on which the Arrangement was effective. The value of the assets transferred to Horizon totaled $18.1 million. As a result, the $18.1 million amount transferred was included as a reduction to retained earnings in the second quarter of 2006.

On July 31, 2006, the Fund acquired all of the outstanding shares of Canadian Dewatering for cash consideration of $16.3 million. Canadian Dewatering is a British Columbia based company offering contract dewatering services as well as the rental and sale of pumps and support equipment. Canadian Dewatering's results from operations are included in the Oilfield Services segment.

On November 6, 2006, the Fund acquired all of the outstanding shares of Brady for cash consideration of $17.0 million. Based out of Halbrite, Saskatchewan, Brady provides hauling services to the oil industry in the Midale and Weyburn fields located in southeastern Saskatchewan. The results from operations of Brady are included in the Oilfield Services segment.

Total acquisitions during 2006 amounted to $1.2 billion which was made up of cash of $182.1 million, the issuance of 20,045,110 Trust Units for $645.0 million, the issuance of 11,182,275 B Units for $359.8 million and the exchange of Trust Unit options for stock options which amounted to a fair value of $7.5 million (see Note 2 of the 2006 Annuals).

Private Placement Debt Financing

On June 29, 2006, the Fund closed a debt financing with a group of institutional investors in the United States and Canada providing for an issuance by way of private placement of US $100.0 million in Series A Notes, US $50.0 million of Series B Notes, CDN $70.0 million of Series C Notes and CDN $70.0 million of Series D Notes. The Series A Notes and Series C Notes will mature June 30, 2016 and the Series B Notes and Series D Notes will mature June 30, 2018. The Series A, Series B, Series C and Series D Notes bear annual interest of 6.29%, 6.39%, 5.60% and 5.76%, respectively and interest is payable on a semi-annual basis.

Proposed Tax on Income Trusts

On October 31, 2006, the Government of Canada announced a proposal for a new tax on distributions for publicly traded Canadian income trusts and partnerships ("Flow Through Entities"). Under the new legislation, the tax treatment of publicly traded Flow Through Entities, effective 2011, would approximate the tax treatment of Canadian public corporations and distributions would be taxed similar to dividends. The draft legislation has not been enacted as of March 6, 2007, the date of this report.

2006 ANNUAL FINANCIAL REVIEW

Selected Annual Information

($ millions, except per unit amounts)	2006	2005	2004 (restated)[1]
	$	$	$
Revenue	**1,003.3**	591.7	470.9
Operating income [1]	**202.1**	112.7	92.1
Net income	**128.1**	70.0	46.5
Earnings per unit – basic	**1.86**	1.51	1.03
– diluted	**1.86**	1.51	1.02
Funds from operations [1]	**195.3**	100.8	70.0
Funds from operations per unit [1]	**2.84**	2.18	1.55
Total assets	**2,021.2**	508.6	400.7
Total long-term debt	**346.7**	51.5	39.2
Debt to equity	**0.24:1**	0.22:1	0.15:1
Cash dividends declared	–	–	7.5
Cash dividends declared per unit	–	–	0.17
Cash distributions declared	**124.0**	38.2	–
Cash distributions declared per unit	**1.80**	0.81	–

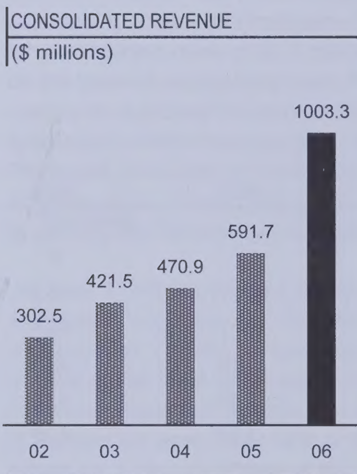
(1) *Refer to the Glossary of Terms and Reconciliation of Non-GAAP terms.*

Consolidated Analysis

In the Outlook section of the 2005 MD&A, we indicated that 2006 was potentially going to be another good year as oil and natural gas prices were forecasted to remain high, which would create continued demand in oil and gas drilling. We were also well aware that commodity prices could be volatile and as a result the energy services industry could be extremely cyclical particularly in the short term. In 2006, we were subject to this volatility and as a result of reduced natural gas drilling activity, the revenue in the Oilfield Services segment activity declined in the latter part of the year.

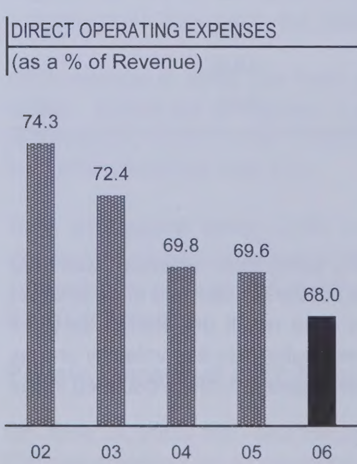
We also indicated that the Fund was conservatively financed and well positioned to capitalize on three objectives; to meet capital expenditure requirements, to return cash to unitholders and acquire complementary or competing businesses in 2006. Our net capital expenditures increased by $60.4 million to $85.3 million, enabling us to both sustain our current operations as well as expand our fleet to capitalize on growth opportunities. On January 13,

2006, we announced that monthly distributions would increase from $0.135 per unit to $0.15 per unit which resulted in $124.0 million in distributions declared in 2006. Finally, we made a total of eight acquisitions in 2006 for total consideration of $1.2 billion which were financed with a combination of cash, issuance of Trust Units, B Units and debt. In 2005, four acquisitions were made for total consideration of $60.4 million.



Consolidated Revenue

Revenue is generated by the Fund's operating businesses utilizing a combination of company assets which are either owned by the Fund or leased under long-term operating leases ("Company Equipment"), owner-operators who provide trucks and/or trailers and work exclusively for the Fund under yearly contracts and subcontractors, who own their own equipment and are used by the Fund during times of peak demand. In 2006, consolidated revenue increased by 69.6 percent to $1.0 billion from $591.7 million in 2005. The $411.6 million increase is mainly attributable to the acquisitions made since May 2005, namely Pe Ben and Pe Ben Bulk in January 2006, Spearing, Burnell and Steen in February 2006, Kleysen in April 2006, Producers in June 2006, Canadian Dewatering in July 2006, Brady in November 2006 (collectively the "2006 Acquisitions"), Tenold Transportation Limited Partnership ("Tenold") in May 2005, Payne Transportation Inc. ("Payne Transportation") in June 2005 and Schmidt Drilling Ltd. in August 2005 (collectively the "2005 Acquisitions"), which accounted for $408.8 million of the increase in revenue. The increase was also attributable to higher activity in our preexisting Trucking/Logistics segment businesses which increased their revenue by $7.3 million which was offset by a reduction in revenue by some of the Oilfield Services businesses.



Direct Operating Expenses

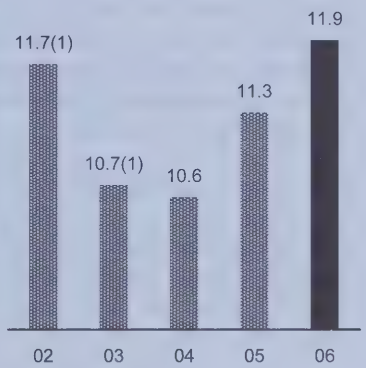
Direct operating expenses include three main categories of expenses. The first category, subcontractors, are generally hired on an "as-needed" basis. Subcontractors provide their own equipment and can supply their services to any company. The second category, owner-operators, are licensed under and work exclusively for Mullen. The third category of direct operating expenses relates to the direct costs incurred to operate and maintain Company Equipment. The major direct operating costs associated with operating Company Equipment are wages, repairs and maintenance, fuel and operating supplies. Direct operating expenses increased to $682.1 million from $411.9 million in 2005, reflecting increased costs associated with the increased revenue from the 2006 Acquisitions and a full year's inclusion of the 2005 Acquisitions. As a percentage of revenue, these expenses declined moderately year-over-year to 68.0 percent of revenue from 69.6 percent in 2005. This decrease in costs as a percentage of revenue can be primarily attributed to higher utilization

of Company Equipment resulting in lower percentages of revenue in wages, fuel and repairs and maintenance costs carried by Company Equipment. The higher margins were partially offset by lower margins on contractors in relation to revenue, as some of the 2006 Acquisitions in the Oilfield Services segment had lower contractor margins.

Selling and Administrative Expenses

Selling and administrative expenses include salaries, employee profit share and other administrative expenses incurred to support the operations of the Mullen Group. These expenses increased to $119.1 million from $67.1 million in 2005. The $52.0 million increase is mainly due to the $51.6 million in administrative costs associated with the 2006 Acquisitions and 2005 Acquisitions. The Fund also experienced an increase in employee profit share primarily due to the inclusion of the 2006 Acquisitions in the profit share plan and improved returns on invested capital generated by certain business units. As a percent of revenue these expenses increased slightly to 11.9 percent from 11.3 percent in 2005. The percentage increase is attributable to the 2006 Acquisitions, some of which traditionally have higher selling and administrative expenses.

SELLING & ADMINISTRATIVE EXPENSES
(as a % of Revenue)

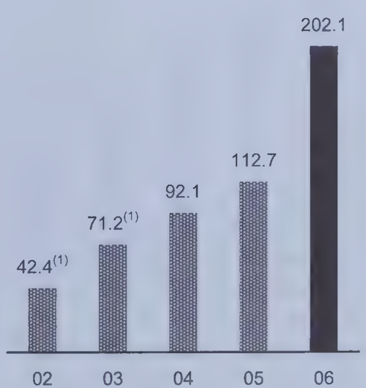


(1) restated

Operating Income

Operating income increased by $89.4 million or 79.3 percent to $202.1 million from $112.7 million in 2005. The 2006 Acquisitions and the full inclusion of the 2005 Acquisitions contributed to most of the increase, adding $74.5 million of incremental operating income in 2006. Increases were also achieved in certain other business units due to price and volume increases, improved utilization of Company Equipment and lower repair and maintenance costs associated with newer equipment and lower selling and administration costs. The operating margin as a percentage of revenue increased to 20.1 percent from 19.0 percent in 2005.

OPERATING INCOME
($ millions)



(1) restated

Depreciation

Depreciation increased by $20.6 million to $41.7 million in 2006 from $21.1 million in 2005. The 2006 Acquisitions and the full inclusion of the 2005 Acquisitions added $19.3 million to the increase and the capital expenditures in the preexisting businesses contributed the remainder.

Amortization

Amortization increased by $9.6 million to $10.9 million in 2006 from $1.3 million in 2005. The increase was entirely due to the 2006 Acquisitions and 2005 Acquisitions. Intangibles are amortized over a period of five to ten years.

Unrealized Loss on Foreign Exchange

On June 29, 2006, the Fund issued Senior Guaranteed Unsecured Notes by way of a private place of US $100.0 million of Series A Notes, US $50.0 million of Series B Notes, CDN $70.0 million of Series C Notes and CDN $70.0 million of Series D Notes. The Series A and C Notes mature June 30, 2016 and the Series B and Series D Notes mature June 30, 2018. The Fund incurred an unrealized loss on foreign exchange of $7.5 million in 2006 which reflects the change in the foreign exchange rate from June 29, 2006 to December 31, 2006 on the Series A Notes and the Series B Notes.

Interest on Long-term Debt and Other Interest

Total interest expense increased to $13.6 million in 2006 from $1.9 million in 2005 reflecting additional interest paid on the Senior Guaranteed Unsecured Notes and to a lesser extent, the long-term debt assumed by virtue of the 2006 Acquisitions. The Fund's debt-to-equity ratio at December 31, 2006 was 0.24:1 compared to 0.22:1 at December 31, 2005.

Gain on Sale of Property, Plant and Equipment

In 2006 the Fund had gains of $1.4 million on sales of $17.4 million of property, plant and equipment ("PP&E") compared to a $0.2 million gain on the sales of $7.9 million of PP&E in 2005. Aggregate gains and losses on the sale of PP&E over the past five years amounted to $1.2 million which reflects the reasonableness of the Fund's depreciation rates.

Income Taxes

Income tax expense decreased by $16.4 million to $2.6 million in 2006 from $19.0 million in 2005. This reflects the Fund's treatment as a trust since its conversion on July 1, 2005. Since that time, the Fund has been a mutual fund trust for purposes of the Tax Act, and is only subject to statutory income taxes on taxable income not distributed to the unitholders. The subsidiary corporations of the Fund are subject to federal large corporation taxes ("LCT") (which was eliminated January 1, 2006), certain provincial capital taxes ("PCT") and corporate income taxes and follow the liability method of accounting for income taxes. The conversion to a trust lowers the effective tax rate and increases after-tax income. As a result, the effective income tax rate was 2.0 percent for 2006 compared to 21.4 percent in 2005 (see Note 8 of the 2006 Annuals). The effective tax rate for the first half of 2005 was 36.7 percent compared to 5.7 percent in the second half of that year. If the Fund paid tax at approximately a 34 percent and 33 percent tax rate for all of 2005 and 2006, respectively, earnings would have been reduced by $11.3 million in 2005 and $41.1 million in 2006. Under the liability method of accounting for

income taxes, future income tax assets and liabilities are determined based on "temporary differences", and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Fund's provision on a consolidated basis for current income taxes, LCT, PCT and future income taxes.

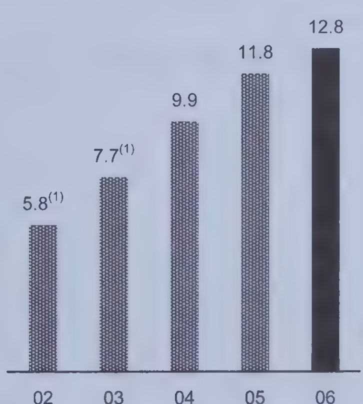
Earnings from Equity Investments

Earnings from equity investments improved by $0.6 million to $1.0 million in 2006 from $0.4 million in 2005. Earnings from equity investments of $1.0 million in 2006 consisted of a loss from BOSS for $0.3 million and $1.3 million in earnings from Pe Ben USA Inc. ("Pe Ben USA"). On June 1, 2006, pursuant to the Plan of Arrangement (the "Arrangement"), the Fund transferred its northern assets including an interest in BOSS and MDIOS to Horizon. Also on June 1, 2006, the Fund entered into an Asset Purchase Agreement ("Agreement") whereby the Fund sold certain operating assets to Pe Ben USA for consideration of US $1.0 million of debt and US $0.5 million of preferred shares. The Fund has an equity ownership of 50 percent of Pe Ben USA. In 2005, earnings from equity investments consisted of earnings from BOSS, MDIOS, and Payne Transportation. Payne Transportation was acquired in stages with the Fund owning 45 percent from 2000 until June 14, 2005. In 2005, $0.4 million of earnings from Payne Transportation were included in earnings from equity investments until the remaining 55 percent was acquired in June, 2005. MDIOS generated $0.3 million in equity earnings in 2005, however, this was offset by equity losses of $0.3 million in BOSS giving net earnings from equity investments of $0.4 million in 2005.

Net Income

Net income increased by $58.1 million or 83.0 percent to $128.1 million in 2006 from $70.0 million in 2005. The increase was primarily due to the income generated by the 2006 Acquisitions and the full inclusion of the 2005 Acquisitions, which totaled $41.4 million. The lower future tax rate in 2006 was due to the Fund's full year treatment as a trust compared to its treatment as a trust for only half of 2005, resulting in a $16.4 million decline in income taxes in 2006. Net income as a percentage of revenue was 12.8 percent in 2006 compared to 11.8 percent in 2005.

NET INCOME
(as a % of Revenue)



(1) restated

2006 ANNUAL SEGMENTED RESULTS

($ millions)	**2006**	2005	Change
Revenues	**$**	$	%
Oilfield Services	**604.3**	338.7	78.4
Trucking/Logistics	**400.4**	256.4	56.2
Other and intersegment eliminations	**(1.4)**	(3.4)	–
Total	**1,003.3**	591.7	69.6
Operating Income			
Oilfield Services	**141.6**	78.4	80.6
Trucking/Logistics	**60.8**	38.8	56.7
Other	**(0.3)**	(4.5)	–
Total	**202.1**	112.7	79.3

OILFIELD SERVICES SEGMENT

The Fund provides the energy sector in western and northern Canada with a wide range of services related to the drilling for oil and natural gas, infrastructure development and capital projects. Energy companies generate their income from the sale of the commodities they produce and as such their decision to deploy capital is primarily dependent on the cash flows generated by the combination of production levels and commodity prices. The Fund made a series of acquisitions in 2006 including Pe Ben, Spearing, Burnell, Withers, Formula Powell, Swanberg, Canadian Dewatering and Brady (collectively the "Oilfield Services Acquisitions"). The services provided by the Fund in the Oilfield Services segment can generally be categorized as follows:

Drilling Related Services: dependent on oil and natural gas drilling activity in western and northern Canada.

- Mullen Oilfield Services L.P. ("Mullen Oilfield")
- FSJ L.A.N.D. Transport L.P. ("FSJ LAND")
- Swanberg Bros. Trucking L.P. ("Swanberg") (Acquired June 1, 2006)
- Pe Ben Oilfield Services L.P. ("Pe Ben") (Acquired January 12, 2006)
- Withers L.P. ("Withers") (Acquired June 1, 2006)
- Formula Powell L.P. ("Formula Powell") (Acquired June 1, 2006)

Drilling Services: dependent on oil and natural gas drilling activity and core drilling for the oilsands industry.

- OK Drilling Services L.P. ("OK Drilling")
- TREO Drilling Services L.P. ("TREO") (Cora Lynn Drilling L.P. and Schmidt Drilling L.P. combined on November 1, 2006)

Production Services: dependent on transporting crude oil and other fluids servicing wells in western Canada.

- E-Can Oilfield Services L.P. ("E-Can")
- Heavy Crude Hauling L.P. ("Heavy Crude Hauling")
- Spearing Service L.P. ("Spearing") (Acquired February 28, 2006)
- Brady Oilfield Services L.P. ("Brady") (Acquired November 6, 2006)

Specialized Services: dependent on major capital projects, large diameter pipeline work, pipeline storage and water management services.

- Premay Equipment L.P. ("Premay Equipment")
- Premay Pipeline Hauling L.P. ("Premay Pipelines")
- Northern Underwater Systems L.P. ("NUS")
- Burnell Contractors L.P. ("Burnell") (Acquired February 28, 2006)
- Canadian Dewatering L.P. ("Canadian Dewatering") (Acquired July 31, 2006) (combined with NUS in January 1, 2007)

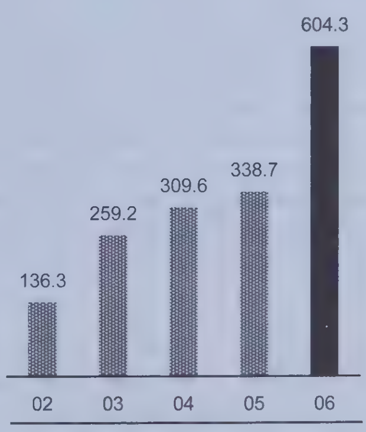
Mullen expected that there would be an increased demand for services supplied by its Oilfield Services segment as the expected high prices for oil and natural gas would generate incremental capital investment and drilling activity in western Canada. Drilling activity remained strong until September at which time gas well drilling activity started to slow down as the price of natural gas declined. The decreased activity in the gas sector adversely affected drilling related services and drilling services. The businesses in the Oilfield Services segment operate in a competitive environment with competitors ranging from small local or regional businesses to large international companies.

Revenue

This segment represents approximately 60 percent of the pre-consolidated revenue for the year compared to 57 percent in 2005. Revenue in the Oilfield Services segment increased by $265.6 million or 78.4 percent to $604.3 million from $338.7 million in 2005. The increase was mainly due to the Oilfield Services Acquisitions and the full year's inclusion of Schmidt, which accounted for $272.1 million. The preexisting drilling related services and drilling services businesses declined by $21.8 million in 2006 but most of this decline was offset by revenue increases in other business units.

REVENUE

Oilfield Services Segment Revenue
($ millions)



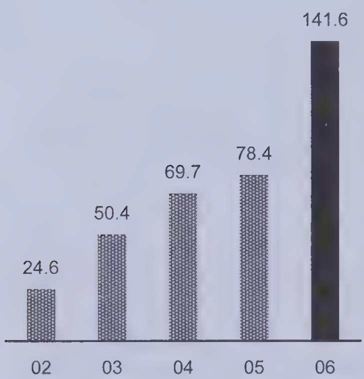
In production services, E-Can and Heavy Crude Hauling revenues were adversely affected in 2005 due to the business decision not to renew or continue with low margin work. In 2006, E-Can and Heavy Crude Hauling attempted to redeploy their assets to other customers and other business units and revenue in these two business units declined by $5.8 million. Production services benefited from the acquisition of Spearing and Brady which contributed $21.8 million of incremental revenue in 2006.

Specialized services experienced higher revenue than prior year by increasing both the quantity of work performed and volume and price as they capitalized on major oil and gas capital projects, particularly in the Alberta oilsands, pipeline activity, water management and the acquisitions of Burnell and Canadian Dewatering.

The incremental increase in Premay Equipment, Premay Pipelines and NUS amounted to $25.3 million. Specialized services also benefited from some of the 2006 Acquisitions which added an additional $20.9 million in revenue.

OPERATING INCOME

Oilfield Services Segment Operating Income ($ millions)



Direct Operating Expenses

Direct operating expenses include the costs for work done by contractors and direct operating expenses for Company Equipment. Total direct operating expenses were $392.4 million or 64.9 percent of revenue, compared to $227.2 million or 67.1 percent of revenue in 2005. This equates to a gross margin of 35.1 percent of revenue in 2006 compared to 32.9 percent in 2005. The margin improvement is primarily a combination of two reasons; some of the Oilfield Services Acquisitions traditionally generated higher margin work; and improved margins from other business units particularly the production services where lower margin work was not renewed or continued for all of 2006. Margins in the drilling services decreased in 2006 which was a result of increased competition and lower drilling activity.

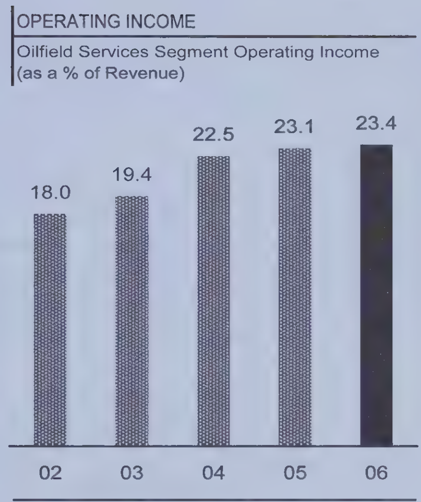
The major direct operating expenses for Company Equipment are wages, repairs and maintenance, fuel and operating supplies. Wages decreased as a percentage of revenue generated by Company Equipment because there was better utilization of equipment in drilling related services and specialized services, partially offset by higher wages in drilling services. Repair and maintenance costs were lower as a percentage of revenue generated by Company Equipment due to the effect of newer equipment and replacing some older equipment. Fuel costs increased as a percentage of revenue as some of the Oilfield Services Acquisitions had higher fuel costs and lower fuel surcharges to customers.

Selling and Administrative Expenses

Selling and administrative expenses were $70.3 million or 11.6 percent of revenue, up from $33.2 million or 9.8 percent of revenue in 2005. The $37.1 million increase is mainly due to the Oilfield Services Acquisitions and the full year's inclusion of Schmidt which amounted to $37.5 million. Slight improvements in the other business units were achieved due to better control of various administrative costs particularly with drilling related services. Profit share increased in term of dollars because of the Oilfield Services Acquisitions but slightly decreased as a percentage of revenue. The increase in selling and administrative expenses as a percentage of revenue is because some of the Oilfield Services Acquisitions had higher selling and administrative costs.

Operating Income

Operating income increased to $141.6 million or 23.4 percent of revenue, compared to $78.4 million or 23.1 percent of revenue in 2005. The increase in operating income is primarily due to the Oilfield Services Acquisitions and a full year's inclusion of Schmidt, which added $55.4 million, improved margins particularly in production services and specialized services which were partially offset by lower margins in the drilling services and drilling related services.



Capital Expenditures

The Oilfield Services segment spent $79.9 million on new assets and disposed of $10.7 million of assets which were either redundant or required upgrading. The $69.2 million of net capital expenditures were mainly for upgrading existing field operating equipment, trucks and trailers. The primary reason for the increase in net capital expenditures compared to 2005 is due to the capital expenditures in the Oilfield Services Acquisitions which were committed to earlier in the year. In 2005 net capital expenditures were $13.5 million. In addition to the normal capital expenditures, the Fund acquired $238.0 million of capital assets by virtue of the 2006 Acquisitions, compared to the $15.5 million of equipment acquired with the 2005 acquisition of Schmidt (see Note 2 of the 2006 Annuals).

TRUCKING/LOGISTICS SEGMENT

The transportation and distribution of freight is a multi-billion dollar business in Canada and is generally described as both highly competitive and fragmented. The Trucking/Logistics segment provides various types of trucking services in Canada, the continental U.S. and Mexico. In 2006, continued demand for freight services combined with capacity constraints led to high margins in this segment due to both volume and price increases similar to 2005. As a result of this positive environment, the Fund deployed more capital in the Trucking/Logistics segment and acquired Kleysen, Steen and Pe Ben Bulk (collectively the "Trucking Acquisitions").

Cascade Carries L.P. ("Cascade") operates primarily as a dry bulk transportation service for the construction and oil and natural gas industries in western Canada. There are many competitors, but the level of service provided to its largest customer has enabled Cascade to retain that business for many years. Cascade is also an "on demand" carrier for transporting anhydrous ammonia and liquid petroleum gas with specialized trailers. This service has many larger competitors and the work is seasonal as there is only a requirement for Cascade's service in the peak season.

Grimshaw Trucking L.P. ("Grimshaw") is based in Edmonton, Alberta and provides less-than-truckload ("LTL") service to approximately 200 towns and cities in northern Alberta, British Columbia and the Northwest Territories. Revenue is affected by the level of commercial activity, which is partially driven by the number of major construction projects and the amount of oil and natural gas exploration activity. Grimshaw has many competitors, ranging from nationwide firms to smaller trucking firms, of which the majority do not offer the same area of service coverage as Grimshaw.

Mill Creek Motor Freight L.P. (Mill Creek"), Payne Transportation L.P. ("Payne") and Steen are long-haul carriers based in Cambridge, Ontario; Winnipeg, Manitoba and Edmonton, Alberta respectively. Mill Creek provides shippers with expedited vanload services across Canada, the United States and Mexico while Payne provides shippers with vanload, flat-deck and refrigerated services across Canada and the United States. Their revenue is dependent on the volume of consumer goods and office products, including furniture, computers and other electronic products being shipped by major suppliers. Steen specializes in scheduled LTL service between various United States cities and Alberta. Mill Creek, Payne and Steen have many competitors, ranging from large national carriers to smaller local companies.

Mullen Trucking L.P. ("Mullen Trucking"), which is based in Aldersyde, Alberta, provides a long-haul carrier service throughout the continental United States and Canada. Mullen Trucking transports a wide range of products such as oilfield equipment, lumber, steel products, building materials, industrial equipment and heavy construction equipment such as bulldozers and graders. It has a wide variety of trailers, many of which are specialized to accommodate the diverse size of items being transported. Mullen Trucking has numerous competitors ranging from large international freight companies to smaller local companies.

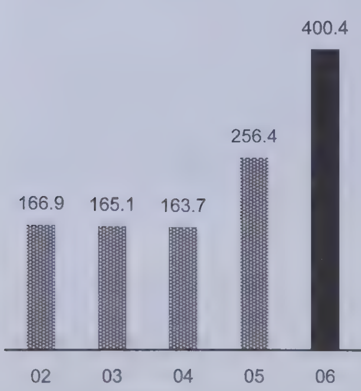
Tenold is a value-added transportation services company primarily providing long-haul, flatbed truckload and LTL services throughout Canada and the United States. Tenold also provides logistics, warehousing and distribution, and other non-transportation services such as cable cutting and reel services to its customers in the wire and cable, telephone, hydro and construction industries.

Kleysen is a diversified transportation and logistics provider that offers dry bulk, deck, intermodal, transload, storage and logistics services primarily in western Canada. Its significant rail capabilities and expertise and substantial storage handling capacity provides Kleysen with the ability to efficiently and effectively service its customers. In business since 1935, Kleysen operates out of 13 strategically located facilities mainly throughout western Canada.

Pe Ben Bulk is engaged in the transportation of liquid bulk petroleum and lubricants. Originally formed in July 1995, Pe Ben Bulk operates from a terminal in Edmonton, Alberta.

REVENUE

Trucking Segment Revenue
($ millions)



Revenue

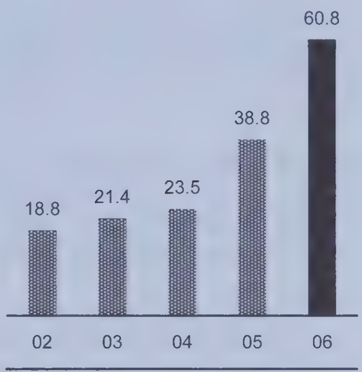
This segment represents approximately 40 percent of the pre-consolidated revenue for the year compared to 43 percent in 2005. Revenue in the Trucking/Logistics segment is earned by utilizing subcontractors, owner-operators, and Company Equipment. Revenue in the Trucking/Logistics segment increased by $144.0 million or 56.2 percent to $400.4 million from $256.4 million in 2005. The increase was mainly due to the Trucking Acquisitions and a full year's inclusion of Tenold and Payne. Revenues of the segment's other businesses mainly increased due to the strong economic activity in western Canada, driven by the high levels of construction and investment in the oilsands plants in Alberta. Revenue in this segment, particularly with Mullen Trucking, Mill Creek, Tenold and Payne, was nominally affected by the slight increase in the value of the U.S. dollar, relative to the Canadian dollar. Some revenue from these business units is invoiced in U.S. dollars and is susceptible to fluctuations in the U.S. foreign exchange rate.

Direct Operating Expenses

Direct operating expenses include the cost of contractors and the direct operating costs of Company Equipment. Contractors consist of subcontractors, who are hired on an "as-needed" basis, and owner-operators who are licensed through and work exclusively for the Fund. Contractors are paid either as a percentage of the load revenue or at a fixed rate per mile. The direct operating expenses increased to $298.5 million or 74.6 percent of revenue in 2006 from $190.8 million or 74.4 percent of revenue in 2005. This equates to a gross margin of 25.4 percent of revenue in 2006 compared to 25.6 percent in 2005. The slight gross margin decline is due to the lower margin businesses of Tenold and Payne in which a full year's effect was realized, which was offset by slight margin improvements in most of the other businesses in the segment including some of the Trucking Acquisitions.

OPERATING INCOME

Trucking Segment Operating Income ($ millions)



Selling and Administrative Expenses

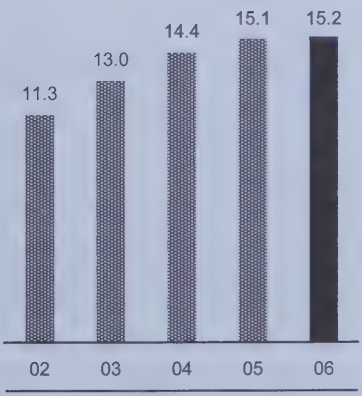
Selling and administrative expenses, consisting primarily of selling and administrative salaries, employee profit share and other administrative costs to support the operations, increased to $41.2 million or 10.3 percent of revenue from $26.8 million or 10.5 percent of revenue in 2005. The $14.4 million increase is mainly due to the Trucking Acquisitions and a full year's inclusion of administrative expenses for Tenold and Payne. The slight percentage decrease resulted from a full year of lower administrative expenses as a percentage of income in Tenold and Payne.

Operating Income

Operating income increased to $60.8 million or 15.2 percent of revenue, compared to $38.8 million or 15.1 percent of revenue in 2005. The $22.0 million increase is mainly due to the Trucking Acquisitions, a full year's inclusion of Tenold and Payne which added $19.1 million of operating income and to increases in most of the other business units. The slight margin improvements reflect operating improvements in most of the preexisting business units partially offset by a full year's inclusion of lower margins associated with Tenold and Payne.

OPERATING INCOME

Trucking Segment Operating Income (as a % of Revenue)



Capital Expenditures

Gross capital expenditures for the segment in 2006 were $16.8 million and disposals were $4.9 million, resulting in net capital expenditures of $11.9 million. The net capital expenditures were primarily for upgrading existing trucks and trailers. This compares to $11.5 million of gross capital expenditures in 2005 and disposals of $2.0 million in 2005, for net capital expenditures of $9.5 million. In addition to the normal capital expenditures, the Fund acquired $57.3 million of PP&E in 2006 (2005 – $9.5 million) with the Trucking Acquisitions (see Note 2 of the 2006 Annuals). The Fund's increased capital expenditures and acquisition of PP&E in this segment reflect management's view that improved returns on capital in this segment can be achieved.

CAPITAL RESOURCES AND LIQUIDITY

Funds from operations increased by 93.8 percent to $195.3 million from $100.8 million in 2005 or $2.84 per unit compared to $2.18 per unit in 2005. The increase was due to higher income from operations mainly as a result of the 2006 Acquisitions and also lower current income tax due to the Fund being under the trust structure for a full year.

Source and Use of Cash

($ millions)		2006		2005
Bank indebtedness, beginning of year	**$**	**(21.9)**	$	(1.9)
Sources of cash:				
Funds provided from operations		**195.3**		100.8
Proceeds of long-term debt		**334.1**		10.4
Proceeds from common share issuances		–		3.1
Proceeds from Trust Unit issuances		**97.1**		9.1
Cash distribution from equity investee		–		0.5
Proceeds on sale of investment		**0.1**		–
Other assets		**2.0**		–
Total sources		**628.6**		123.9
Uses of cash:				
Changes in non-cash working capital items		**(3.2)**		(30.1)
Repayment of long-term debt		**(162.4)**		–
Dividends paid		–		(3.8)
Distributions paid		**(118.1)**		(31.9)
Acquisitions		**(182.1)**		(46.2)
Net property, plant and equipment additions		**(85.3)**		(24.9)
Other assets		–		(3.5)
Investments		–		(0.1)
Total usage		**(551.1)**		(140.5)
Increase (decrease) in cash		**77.5**		(16.6)
Less: bank indebtedness assumed with acquisitions		**(6.2)**		(3.4)
Cash (bank indebtedness), end of year	**$**	**49.4**	$	(21.9)

The funds from operations of $195.3 million or $2.84 per unit compares favourably to $100.8 million or $2.18 per unit in 2005. During the year the Fund received $334.1 million in proceeds from long-term debt, which includes the issuance of $315.5 million of Senior Guaranteed Unsecured notes and an $18.6 million draw on the bank facility (see Note 7 of the 2006 Annuals). The Fund received net proceeds of $97.1 million on the issuance of Trust Units which includes $96.4 million on the equity issue of 3,400,000 million Trust Units and $0.7 million from the exercise of 56,442 unit options. The Fund also received $0.1 million in proceeds from the sale of an investment and $2.0 million from other assets which primarily included proceeds from loan repayments, offset by payments for deferred compensation and deferred private debt costs.

Cash was used to finance $3.2 million of non-cash working capital items, repay long-term debt of $162.4 million, pay $118.1 million in distributions during the year, invest $182.1 million of cash for the 2006 Acquisitions and $85.3 million in net capital expenditures. The 2006 Acquisitions amounted to $1.2 billion which was made up of cash consideration of $182.1 million and unit issuances of $1.0 billion (see Note 2 of the 2006 Annuals). Net capital expenditures were higher relative to 2005 because of commitments made earlier in the year by some of the businesses the Fund acquired.

Discretionary funds from operations or funds generated from operations after net capital expenditures, increased to $110.0 million or $1.60 per unit, up from $75.9 million or $1.64 per unit in 2005. The increase is due to increased funds from operations mainly from the 2006 Acquisitions, partially offset by a $60.4 million increase in net capital expenditures in 2006. Discretionary funds are available on an after-tax basis to repay debt, pay distributions, or pay for future acquisitions and expansions.

During the year the Fund increased its term loan facility to $150.0 million. On June 29, 2006, the Fund issued Senior Guaranteed Unsecured Notes by way of private placement of US $100.0 million of Series A Notes, US $50.0 million of Series B Notes, CDN $70.0 million of Series C Notes and CDN $70.0 million of Series D Notes. The Series A and Series C Notes mature June 30, 2016 and the Series B and Series D Notes mature June 30, 2018. The Series A, Series B, Series C, and Series D Notes bear interest of 6.29%, 6.39%, 5.60% and 5.76% per annum, respectively (see Note 7 of the 2006 Annuals). Interest is payable semi-annually.

Distributable Cash

($ millions)	**Year ended December 31, 2006 (Audited)**	Six months ended December 31, 2005 (Unaudited)
	$	$
Cash flow from operations after non-cash working capital items	**192.1**	26.7
Less:		
Scheduled debt repayments	**(5.2)**	(0.3)
Maintenance capital expenditures	**(38.8)**	(10.3)
Distributable cash	**148.1**	16.1
Cash distributions declared	**124.0**	38.1
Surplus (deficit) of cash available for distribution	**24.1**	(22.0)
Cash distributed as a percent of distributable cash (payout ratio)	**83.7%**	236.6%

The declared distributions to unitholders were $124.0 million or $0.15 per unit per month. The declared distributions were less than the distributable cash which amounted to $148.1 million for the year ended December 31, 2006. The distributable cash for the year resulted in an 83.7 percent payout ratio for the year, compared to 236.6 percent in the second half of 2005. There is a surplus of cash in 2006 due to working capital requirements traditionally required in the first quarter and for future cash flow requirements. The payout ratio in 2005 was 236.6 percent due to temporary working capital requirements of $30.4 million.

Contractual Obligations (see Notes 7 and 12 of the 2006 Annuals)

($ millions)		Maximum Payments		
	Total	1 Year	2 – 3 Years	4 – 5 Years
	$	$	$	$
Long-term debt	346.7	21.7	5.6	319.4
Operating leases	48.1	18.5	24.0	5.6

The Fund started the year with $51.5 million of long-term debt and assumed $116.0 million of long-term debt with the 2006 Acquisitions (see Note 2 of the 2006 Annuals). During the year, the Fund borrowed a further $334.1 million from its term loan and private placement plus unrealized foreign exchange losses of $7.5 million and repaid $162.4 million to exit 2006 with total long-term debt of $346.7 million. At year end, the Fund's debt-to-equity ratio was 0.24:1 compared to the ratio of 0.22:1 at the end of 2005. Note 7 of the 2006 Annuals provides additional information on the long-term debt. Operating leases include building and equipment leases used for the Fund's operations (see Note 12 of the 2006 Annuals).

Capital Expenditures

The Fund had net capital expenditures of $85.3 million, which were $60.4 million higher than in 2005. Gross expenditures of $102.7 million, which includes $8.1 million for land and buildings; $59.7 million for trucks and trailers and $34.9 million for automobiles, equipment and other capital items, were offset by $17.4 million of disposals. The $85.3 million of net capital expenditures was split among the Oilfield Services segment ($69.2 million), the Trucking/Logistics segment ($12.0 million), and other ($4.1 million), which includes head office and non-segmented businesses.

Over the long-term we expect net capital expenditures to approximate depreciation in order to sustain the business. In 2006, net capital expenditures exceeded depreciation by $43.6 million as various equipment purchased in late 2006 were committed earlier on in the year by some of the 2006 Acquisitions.

In 2006, the Fund also acquired $295.3 million of PP&E as a result of the 2006 Acquisitions (see Note 2 of the 2006 Annuals).

Acquisitions

During the year, the Fund made a series of acquisitions including Pe Ben, Spearing, Burnell, Steen, Kleysen, Producers, Canadian Dewatering and Brady. The total consideration of approximately $1.2 billion was made up of cash of $182.1 million, the issuance of 20,045,110 Trust Units for $645.0 million, the issuance of 11,182,275 B Units for $359.8 million and the exchange of 789,429 stock options for Trust Unit options which amounted to a fair value of $7.5 million (see Note 2 of the 2006 Annuals).

Unitholders' Capital

($ millions)	Trust Units	$	B Units	$
Balance at December 31, 2005	37,760,207	82.8	9,495,549	16.2
Equity issue on January 12, 2006	3,400,000	96.4	–	–
Units issued for the Kleysen acquisition	154,875	5.0	–	–
Units issued for the Producers acquisition	19,890,235	640.0	11,182,275	359.8
Units issued for the options exercised	56,442	1.5	–	–
Trust Units issued in exchange for B Units	66,979	1.2	(66,979)	(1.2)
Balance at December 31, 2006	61,328,738	826.9	20,610,845	374.8

On January 12, 2006 the Fund issued 3,400,000 Trust Units at $30.00 each and received net proceeds of $96.4 million. On the Kleysen acquisition 154,875 Trust Units were issued at $32.28 each as part of the total consideration. On the Producers acquisition, which was funded by units, the Fund issued a total of 31,072,510 units (19,890,235 Trust Units and 11,182,275 B Units) at a price of $32.17 each for a total value of $1.0 billion. Subsequent to the Producers acquisition, 56,442 Trust Unit options were exercised and 66,979 B Units were converted to 66,979 Trust Units. In total the Fund raised $1.1 billion in capital during the year. Retained earnings decreased by $14.0 million from December 31, 2005. The decrease is due to the effect of $128.1 million of net income, less distributions declared of $124.0 million to unitholders and $18.1 million due to the spin out of Horizon (see Note 2 of the 2006 Annuals). Return on unitholders' equity decreased to 14.6 percent from 23.5 percent in 2005, with the decrease due to the increase of Trust Units and B Units issued. Net book value per unit increased to $17.38 in 2006 (2005 from $6.91).

DISCLOSURE AND INTERNAL CONTROLS

Disclosure Controls

As of December 31, 2006, the Co-Chief Executive Officers ("CEO") and the Chief Financial Officer ("CFO") together with the Fund's management have evaluated the design and effectiveness of the Fund's disclosure controls and procedures. They concluded that the Fund's disclosure controls and procedures were adequate and effective in ensuring that material information relating to the Fund and its consolidated subsidiaries were accurately and properly disclosed.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

Internal Control over Financial Reporting

The CEO and CFO are responsible for designing internal control procedures over financial reporting, causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. We have designed internal controls over financial reporting and have conducted an evaluation of those controls.

The Fund, due to its corporate structure, decentralized operations and strategy of growth through acquisition, does have weaknesses in its internal control over financial reporting. These weaknesses include:

- in certain business units there is a weakness in regards to segregation of duties. This weakness is addressed by management and senior executive overview. In addition, the Fund will, where practicable, make the necessary changes to improve the segregation of duties.

- the complex structure of the Fund and its decentralized operations raises a risk of misstatements due to the handling of complex and non-routine accounting and tax related transactions. Management and board reviews are utilized to mitigate these risks but there is no guarantee that a material misstatement would be prevented. The Fund will attempt to remediate this weakness by utilizing outside consultants with the appropriate expertise when the need arises or by developing in-house expertise or recruiting the necessary personnel with the expertise.

- the Fund's inability to design or effect a change to a design of an internal control over financial reporting for a company it acquires until after the acquisition has been completed. This is an inherent weakness that exists due to the Fund's strategy of growth through acquisition. Management is aware of this issue and will ensure that, to the extent appropriate and possible, a review of the design of the internal control over financing reporting for companies it intends to acquire occurs during its due diligence process or within a reasonable period of time after acquisition.

We have not made any changes in the Fund's internal control of financial reporting that would materially affect, or is reasonably likely to materially affect, the Fund's internal control of financial reporting.

TRANSACTIONS WITH RELATED PARTIES

A summary of transactions with related parties is disclosed in Note 14 of the 2006 Annuals. All transactions were undertaken in the normal course of business under the same terms as transactions with unrelated entities except for a $0.5 million loan to Mackenzie Valley Logistics Inc. and Beaufort Logistics Inc., which was non-interest bearing.

SUMMARY OF QUARTERLY RESULTS

The first quarter of the year traditionally has the highest revenue and net income. This is primarily due to the seasonality of a significant portion of the Fund's operations, which relate to core drilling, the moving of heavy equipment, the transportation of drilling rigs and conductor pipe setting in northern and western Canada. The seasonality of the Fund's business follows the seasonal patterns of western Canada's oil and natural gas exploration which peaks in the winter months and declines during the spring thaw. The spring frost comes out of the ground, making roads incapable of supporting heavy equipment and difficult to drill for oil and natural gas. As a result, demand for these services is traditionally highest in the first quarter and lowest in the second quarter.

Summary of Quarterly Results

($ millions except per unit amounts) (Unaudited)	2006 Q1	2006 Q2	2006 Q3	2006 Q4
	$	$	$	$
Revenue	245.9	200.0	273.4	284.0
Operating income	59.8	34.5	54.5	53.3
Net income	43.1	38.9	32.1	14.0
Earnings per unit – basic	$ 0.86	$ 0.64	$ 0.39	$ 0.17
– diluted	$ 0.85	$ 0.63	$ 0.39	$ 0.17
Funds from operations	58.3	34.2	51.9	50.9
Funds from operations per unit	$ 1.16	$ 0.56	$ 0.63	$ 0.62

	2005 Q1	2005 Q2	2005 Q3	2005 Q4
	$	$	$	$
Revenue	176.2	114.2	140.6	160.7
Operating income	44.0	12.1	24.6	32.0
Restructuring costs	–	4.2	0.1	–
Net income	26.0	3.2	16.1	24.7
Earnings per unit – basic	$ 0.57	$ 0.07	$ 0.34	$ 0.52
– diluted	$ 0.57	$ 0.07	$ 0.34	$ 0.52
Funds from operations	31.6	12.0	25.2	32.0
Funds from operations per unit	$ 0.70	$ 0.26	$ 0.54	$ 0.68

Revenues in 2006 were higher in each quarter than in 2005. This increase in revenue is due to a combination of factors. The revenue in each quarter increased primarily due to the 2006 Acquisitions and the inclusion of 2005 Acquisitions for the entire year. The oil and natural gas industry continued to benefit from higher commodity pricing providing producers with record cash flows in the first half of the year. A significant portion was invested in drilling programs and capital projects. As a result, our Oilfield Services segment turned in another solid year. The Trucking/Logistics segment benefited from strong demand for its services and contributed increased revenues the entire year.

FOURTH QUARTER FINANCIAL RESULTS

	Three Months Ended December 31 (Unaudited)		
($ millions, except per unit amounts)	**2006**	2005	Change
	$	$	%
Revenue	**284.0**	160.7	76.7
Operating income	**53.3**	32.0	66.6
Net income	**14.0**	24.7	(43.3)
Earnings per unit – basic	**$ 0.17**	$ 0.52	(67.3)
Funds from operations	**50.9**	32.0	59.1
Funds from operations per unit	**$ 0.62**	$ 0.68	(8.8)

Revenue

Consolidated revenue in the fourth quarter was $284.0 million, up $123.3 million or 76.7 percent from $160.7 million in 2005. Most of the increase was due to the 2006 Acquisitions which had $133.7 million of revenue partially offset by a slowdown in the natural gas drilling activity which saw the preexisting drilling related services and drilling services decrease by $9.7 million.

Direct Operating Expenses

Direct operating expenses increased by $85.7 million to $198.1 million, from $112.4 million in 2005. These costs increased due to the costs associated with the 2006 Acquisitions which contributed $91.1 million of the increase. Included in the direct operating costs are contracting costs which were higher as a percentage of revenue because contract margins in some of the Oilfield Services Acquisitions were higher as a percentage. The 2006 Acquisitions contributed $30.9 million more to contracting costs. Also included in direct operating costs are company expenses which remained in line with revenue. Company Equipment expenses increased by $60.9 million, of which $60.2 million related to the 2006 Acquisitions.

Selling and Administrative Expenses

Selling and administrative expenses increased to $32.6 million from $16.3 million in 2005. The increase was primarily due to the 2006 Acquisitions which contributed $19.6 million of administrative expenses.

Operating Income

The increase in operating income was due to the 2006 Acquisitions, partially offset by decreases in the preexisting businesses in drilling related services and drilling services. The operating income increased to $53.3 million, a $21.3 million increase from 2005. Operating income, as a percentage of revenue, decreased to 18.8 percent, from 19.9 percent in 2005. This reflects lower margins in the Oilfield Services segment due to decreased activity resulting from relatively low natural gas prices.

Net Income

($ millions, except per unit amounts)	Three Months Ended December 31 (Unaudited) 2006	2005	Change
	$	$	%
Operation income	53.3	32.0	66.6
Depreciation on property, plant and equipment	(12.8)	(5.8)	120.7
Amortization on intangible assets	(4.2)	(0.5)	–
Interest on long-term debt	(5.1)	(0.7)	–
Other interest	(0.1)	–	–
Unrealized loss on foreign exchange	(7.5)	–	–
(Gain) loss on sale of property, plant and equipment	(0.2)	0.2	–
Provision for income taxes	(9.8)	(0.3)	–
Earnings (loss) from equity investments	0.4	(0.2)	–
Net income	14.0	24.7	(43.3)
Earnings per unit – basic	$ 0.17	$ 0.52	(67.3)

Net income decreased to $14.0 million, down $10.7 million from 2005. The decrease in net income occurred mainly because of the following reasons; additional depreciation due to the 2006 Acquisitions and additional capital purchases made by the preexisting business units, higher amortization due to the increase in intangibles as a result of the 2006 Acquisitions, a $7.5 million unrealized foreign exchange loss and an increase of $9.5 million in taxes mainly due to restrictions on the tax deductibility of interest on internal debt. As a result, earnings per unit decreased by 67.3 percent to $0.17, versus $0.52 in 2005.

SEGMENTED INFORMATION - QUARTERLY RESULTS

	Three Months Ended December 31 (Unaudited)		
($ millions)	**2006**	2005	Change
Revenues	**$**	$	%
Oilfield Services	**174.7**	87.2	100.3
Trucking/Logistics	**109.9**	73.8	48.9
Other	**0.4**	0.3	–
Intersegment eliminations			
Oilfield Services	**(0.6)**	(0.2)	–
Trucking/Logistics	**(0.4)**	(0.4)	–
Total	**284.0**	160.7	76.7
Operating income			
Oilfield Services	**35.5**	21.3	66.7
Trucking/Logistics	**18.9**	10.7	76.6
Other	**(1.1)**	–	–
Total	**53.3**	32.0	66.6

OILFIELD SERVICES SEGMENT

Revenue

This segment generated approximately 62 percent of the pre-consolidated revenue in the quarter, up from 54 percent in 2005, due to the continued expansion of the Oilfield Services segment relative to the Trucking/Logistics segment. Revenue increased by $87.5 million to $174.7 million from the prior year's $87.2 million mainly due to the Oilfield Services Acquisitions which added $96.1 million. The preexisting business units, particularly in the drilling related services and drilling services, had a small decrease in revenue because of the slowdown in natural gas drilling activity.

Direct Operating Expenses

Direct operating expenses increased by $61.3 million, or 105.5 percent, to $119.4 million from $58.1 million. $63.4 million of the increase can be attributed to the Oilfield Services Acquisitions which was slightly offset by less activity in drilling related services and drilling services, particularly with Company Equipment. Contracting costs increased to $35.3 million from $22.7 million and the overall margin on revenue earned by contractors decreased to 31.6 percent, down from 33.4 percent in 2005, reflecting lower margins in some of the Oilfield Services Acquisitions. Direct operating costs relating to Company Equipment increased by $47.7 million mostly due to the Oilfield Service Acquisitions, slightly increased activity in the specialized services partially offset by lower activity in the drilling related services and drilling services.

Selling and Administrative Expenses

Selling and administrative expenses increased by $11.8 million to $19.7 million from $7.9 million. The increase was due to the inclusion of the Oilfield Services Acquisitions. Selling and administrative expenses were 11.3

percent of revenue, up from 9.1 percent in 2005 as some of the Oilfield Services Acquisitions had higher administrative costs.

Operating Income

Operating income increased by $14.2 million to $35.5 million, up 66.7 percent from $21.3 million in 2005. This reflects the effect of the Oilfield Services Acquisitions and slightly improved earnings from the specialized services, offset by reduced earnings in the drilling related services and drilling services. The operating margin was 20.3 percent of revenue, down from 24.4 percent, reflecting the effect of reduced utilization of assets due to the slowdown of natural gas drilling activity.

TRUCKING/LOGISTICS SEGMENT

Revenue

Revenue in the Trucking/Logistics segment was approximately 38 percent of pre-consolidated revenue, down from 46 percent in 2005, reflecting the impact of the 2006 Acquisitions which were primarily in the Oilfield Services segment. Revenue increased to $109.9 million, up 48.9 percent from the $73.8 million in 2005. Most of the increase was due to the revenue generated by the Trucking Acquisitions.

Direct Operating Costs

Total direct operating costs increased to $81.4 million, up $25.8 million from $55.6 million in 2005. The majority of the increase is associated with the Trucking Acquisitions, as the remainder of the costs remained in line with the relatively flat revenue in the other businesses. Contracting costs increased by $12.7 million to $51.2 million, up from $38.5 million in 2005. Most of the increase relates to the Trucking Acquisitions, some of which use contractors to provide most of their service. Contractor costs were 78.6 percent of revenue generated by contractors, compared to 76.8 percent in 2005. The increase reflects the lower contract margin business of Kleysen. Direct operating costs relating to revenue earned by Company Equipment increased to $30.2 million, up from $17.0 million in 2005. The increase related to increased revenues earned by Company Equipment, slightly improved margins in Mullen Trucking and traditionally higher company margins in Kleysen. In total, the direct operating costs were 74.1 percent of revenue, down from 75.3 percent in 2005.

Selling and Administrative Expenses

Selling and administrative expenses increased by $2.0 million to $9.6 million, up from $7.6 million in 2005. The increase is mainly due to administrative costs associated with the Trucking Acquisitions which amounted to $3.7 million offset by lower administrative costs and wages in the preexisting business units. Selling and administrative expenses were 8.7 percent of revenue down from 10.3 percent in 2005.

Operating Income

Operating income increased by $8.2 million or 76.6 percent to $18.9 million from $10.7 million in 2005. The increase was due to the Trucking Acquisitions and to increases in some of the other business units due to revenue increases and improved pricing. As a percentage of revenue, the operating margin increased to 17.2 percent from 14.5 percent, which reflects improved margins in some of the preexisting business units and stronger margins in the Trucking Acquisitions, particularly high margins from a one-time contract in 2006.

CAPITAL AND LIQUIDITY - QUARTERLY RESULTS

Funds provided from operations before non-cash working capital items were $50.9 million, or $0.62 per unit, up from $32.0 million or $0.68 per unit in 2005. These funds are available to pay scheduled debt repayments, net expenditures on PP&E and distributions to unitholders.

Distributable Cash

($ millions, except per unit amounts) (Unaudited)	Three Months Ended December 31, 2006	Three Months Ended December 31, 2005
Cash flow from operations after non-cash working capital items	$ 53.1	$ 14.3
Scheduled debt repayment	(1.0)	(0.4)
Maintenance capital expenditures	(12.1)	(5.6)
Distributable cash	40.0	8.3
Cash distributions declared	36.9	19.1
Surplus (deficit) of cash available for distribution	$ 3.1	$ (10.8)
Cash distributed as a percent of distributable cash (payout ratio)	92.3%	230.1%

	Year Ended December 31, 2006 (Audited)	Six Months Ended December 31, 2005 (Unaudited)
Accumulated cash distributions		
Beginning of period	$ 38.1	$ –
Cash distributions declared in the period	124.0	38.1
End of period	$ 162.1	$ 38.1
Cash distributions declared	$ 124.0	$ 38.1
Distributable cash	$ 148.1	$ 16.1
Cash distributed as a percent of distributable cash (payout ratio)	83.7%	236.6%

The calculation of distributable cash and the payout ratio was changed in 2006 to conform to the guidelines set out on distributable cash in income trusts and other flow through entities released by the Canadian Institute of Chartered Accountants.

Distributions declared for unitholders were $36.9 million in the quarter, which was $3.1 million less than the $40.0 million of distributable cash. The payout ratio for the fourth quarter of 2006 was 92.3 percent. In 2005, the payout ratio was 227.4 percent due to temporary working capital requirements of $17.4 million.

Source and Use of Cash – Fourth Quarter

($ millions) (Unaudited)	2006	2005
Cash (bank indebtedness) beginning of period	$ 66.5	$ (9.4)
Sources of cash		
Funds from operations	50.9	32.0
Changes in non-cash working capital items	2.2	–
Proceeds from long-term debt	16.7	–
Proceed of Trust Unit issues	0.1	–
	69.9	32.0
Uses of cash		
Acquisitions	(17.0)	(0.9)
Changes in non-cash working capital items	–	(17.6)
Repayment of long-term debt	(2.9)	(0.4)
Cash distributions to unitholders	(36.9)	(19.1)
Net property, plant and equipment additions	(30.1)	(4.2)
Other assets	(0.1)	(2.2)
	(87.0)	(44.4)
Decrease in bank indebtedness	(17.1)	(12.4)
Ending cash (bank indebtedness)	$ 49.4	$ (21.8)

The $50.9 million of funds from operations, supplemented by the $2.2 million increase in non-cash working capital requirements, $16.7 million proceeds from long-term debt and $0.1 million proceeds from Trust Unit issuances were used to finance $17.0 million due to the Brady acquisition, net capital expenditures, other assets and fund the $36.9 million of distributions to unitholders.

Capital Expenditures

In the fourth quarter the Fund had net capital expenditures of $30.1 million which were mainly for new trucks, trailers and equipment. The increase of $26.0 million from $4.2 million in 2005 was mainly because certain expenditures committed by some of the Oilfield Services Acquisitions earlier in the year were incurred in the fourth quarter.

BUSINESS RISKS

General

Certain activities of the Fund are affected by factors that are beyond its control or influence. The transportation business and activities of the Fund are directly affected by fluctuations in the general economy, including the amount of trade between Canada and the United States. The Oilfield Services business is directly affected by fluctuations in the levels of oil and gas drilling activity, oilsands development and production activity carried on by its customers, which in turn is dictated by numerous factors, including world energy prices and government policies.

Oil and Natural Gas Drilling Activity

A significant portion of the Fund's revenue and operating profit are related to oil and natural gas drilling activity in western Canada. As a service provider to the oil and gas industry the Fund is highly reliant on levels of capital expenditures made by oil and gas producers. Exploration and production companies base their capital expenditures on several factors, including but not limited to hydrocarbon prices, production levels and access to capital. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital budgets to reflect those factors. In recent years, commodity prices, and therefore, the level of drilling, production and exploration activity have been volatile. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the exploration and production companies and the demand for the Fund's services. A significant, prolonged decline in commodity prices could have a material adverse effect on the Fund's Oilfield Services segment, results of operations and financial condition.

Cost Escalation

Cost escalations due to rising costs, effect of inflation, the price of fuel, equipment and other input costs, insurance costs, interest rates, fluctuations in customers' business cycles and national and regional economic conditions are factors over which the Fund has little or no control. Significant increases in fuel prices, equipment prices, other input prices, interest rates or insurance costs, to the extent not offset by increases in transportation rates or contractual surcharges, or disruptions in fuel supply, would reduce profitability and could adversely affect the Fund's ability to maintain distributions. The Fund cannot predict the impact of future economic conditions and there is no assurance that the operations of the Fund will continue to be profitable.

Fuel Prices

One of the Fund's largest operating expenses is fuel and as such higher fuel prices could materially affect the Fund's results. The Fund manages this exposure to rising costs through the implementation of a fuel surcharge program which passes the majority of the cost increase on the increases to its customers. As a result, fuel expense, net of fuel surcharge, only increased slightly from 7.0 percent to 7.3 percent as a percentage of revenue.

Credit Risk

Substantial portions of the Fund's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The Fund's top ten customers are all well-known, publicly-traded companies.

Competition

The various business segments in which the Fund participates are highly competitive. The Fund competes with several large companies in the transportation and energy services industry that have greater financial and other resources than the Fund. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Fund or that new competitors will not enter the various markets in which the Fund is active. In certain aspects of its business, the Fund has competitive advantages such as lower overhead costs and specialized regional strengths.

Access to Parts, Development of New Technology and Relationships with Key Suppliers

The ability of the Fund to compete and expand will be dependent on the Fund having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies. Although the Fund has individual distribution agreements with various key suppliers, there can be no assurance that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, the Fund's ability to compete may be impaired. The Fund is able to access certain distributors and secure discounts on parts and components that would not be available if it were not for its relationship with certain key suppliers. Should the relationships with key suppliers cease, the availability and cost of securing certain equipment and parts may be adversely affected.

Changes in Legislation

There can be no assurance that income tax laws, such as the status of mutual fund trusts and other government programs relating to the oil and gas industry, the energy services industry and the transportation industry, will not be changed in a manner which adversely affects unitholders (refer to Mutual Fund Trust Status).

Environmental and applicable operating legislation may be changed in a manner which adversely affects unitholders.

Unitholder Limited Liability

The declaration of trust provides that no unitholder will be subject to any liability in connection with the Fund or its obligations and affairs and, in the event that a court determines unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Fund's assets. Pursuant to the declaration of trust, the Fund will indemnify and hold harmless each unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a unitholder resulting from or arising out of such unitholder not having such limited liability.

The declaration of trust provides that all written instruments signed by or on behalf of the Fund must contain a provision to the effect that obligations under those instruments will not be binding upon unitholders personally. Personal liability may however arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The Income Trusts Liability Act (Alberta) provides that a unitholder will not be, as a beneficiary, liable for any act, default, obligation or liability of the Trustee that arises after the legislation came into force. However, this legislation has not yet been ruled on by the courts.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the unitholders for claims against the Fund, including by obtaining appropriate insurance, where available and to the extent commercially feasible.

Mutual Fund Trust Status

It is intended that the Fund qualify at all times as a mutual fund trust for the purposes of the Tax Act. The Fund may not, however, always be able to satisfy any future requirement for the maintenance of mutual fund trust status. Should the status of the Fund as a mutual fund trust be lost or successfully challenged by a relevant tax

authority, certain adverse consequences may arise for the Fund and unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Where at the end of any month a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP") or deferred profit sharing plan (collectively, "Exempt Plans") holds units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1.0 percent of the fair market value of the units at the time such units were acquired by the Exempt Plan. An RRSP or RRIF holding units that are not qualified investments would become taxable on income attributable to the units while they are not qualified investments (including the entire amount of any capital gain arising on a disposition of the non-qualified investment). RESPs which hold units that are not qualified investments may have their registration revoked by the CRA;

- the Fund would be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for certain unitholders, including non-resident persons and residents of Canada who are exempt from Part I tax;

- the Fund would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws; and

- units would become taxable Canadian property. As a result, non-resident unitholders would be subject to Canadian income tax on any gains realized on a disposition of units held by them, subject to relief under an applicable tax convention. In addition, the Fund may take certain measures in the future to the extent the Fund believes such measures are necessary to ensure the Fund maintains its status as a mutual fund trust. These measures could be adverse to certain holders of units.

On October 31, 2006, the Government of Canada announced a proposal for a new tax on distributions for publicly traded Flow Through Entities. Under the new legislation, the tax treatment of publicly traded Flow Through Entities, effective 2011, would approximate the tax treatment of Canadian public corporations and their distributions would be taxed similar to dividends. The draft legislation has not been enacted as of March 6, 2007, the date of this report.

Non-resident Ownership of Units

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada ("non-residents") within the meaning of the Tax Act. The declaration of trust provides that if at any time the Fund or MGI becomes aware that the activities of the Fund and/or ownership of Trust Units by non-residents may threaten the status of the Fund under the Tax Act as a "unit trust" or a "mutual fund trust", the Fund, by or through MGI on the Fund's behalf, is authorized to take such action as may be necessary in the opinion of MGI to maintain the status of the Fund as a "unit trust" or a "mutual fund trust". See "declaration of trust and Description of Units – Limitation on Non-Resident Ownership" in the Arrangement Circular.

Income Tax Matters

Generally, income trusts (including the Fund) involve significant amounts of inter-company debt, royalties or similar instruments, generating substantial interest expense or other deductions which serve to reduce taxable income and income tax payable. Although the Fund is of the view that all expenses to be claimed by the Fund, MHT, MCLP and MTI will be reasonable and deductible and that the cost amount and capital cost allowance

claims of such entities' depreciable properties will have been correctly determined, there can be no assurance that the taxation authorities will not seek to challenge the amount of interest expense and other deductions. If such a challenge were to succeed it could materially adversely affect the amount of distributions available to the Fund. The Fund and MGI believe that the interest expense inherent in the structure of the Fund is supportable and reasonable in light of the terms of the MHT Notes and certain debt issued by MTI to MCLP.

Employees and Labour Relations

The success of the Fund is dependent upon the Fund's key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Fund. The ability of the Fund to expand its services will be dependent upon the Fund's ability to attract additional qualified employees which is constrained in times of strong industry activity. The failure to attract and retain a sufficient number of qualified drivers and owner-operators could also have a material adverse affect on the profitability of the Fund.

The largest components of the Fund's overall expenses are salary, wages, benefits and costs of subcontractors. Any significant increase in these expenses could impact the financial results of the Fund. In addition, the Fund is at risk if there are any labour disruptions. Some of the Fund's business units are subject to collective agreements with their employees. Any work stoppages or unbudgeted or unexpected increases in compensation could have a material adverse affect on the Fund's profitability and reduce cash available for distribution to unitholders.

The Fund believes that it has fostered a positive working relationship with its employees and contractors. By creating a positive working environment, built on the tenets of quality, and by providing incentive-based profit share the Fund believes its ability to attract and retain drivers is higher than the rest of the industry.

Environmental Liability Risks

Certain of the Fund's subsidiaries routinely deal with natural gas, oil and other petroleum products. The Fund has programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Fund's procedures will prevent environmental damage occurring from spills of materials handled by the Fund or that such damage has not already occurred.

Canadian laws generally impose potential liability to the present or former owners or occupants of properties on which contamination has occurred. Although the Fund is not aware of any contamination which, if remediation or clean up were required would have a material adverse effect on the Fund, there can be no assurance that the Fund will not be required, at some future date, to incur significant costs to comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by current or future environmental laws.

Potential Operating Risks and Insurance

The Fund has an insurance and risk management program in place to protect its assets, operations and employees. The Fund also has programs in place to address compliance with current safety and regulatory standards. The Fund has a health and safety coordinator in each operating subsidiary responsible for maintaining and developing policies and monitoring operations vis-à-vis those policies. The health and safety coordinators are required to report incidents directly to the Vice President, Safety and Loss Prevention of MGI, who reports directly to the Co-Chief Executive Officers of MGI. However, the Fund's Oilfield Services operations are subject to risks inherent in the oil and gas industry, such as equipment defects, malfunction, failures and natural disasters. These risks could expose the Fund to substantial liability for personal injury, loss of life, business interruption, property

damage or destruction, pollution and other environmental damages. In addition, the Fund's transportation operations are subject to risks normally inherent in the transportation industry, including potential liability which could result from, among other things, personal injury or property damage arising from motor vehicle accidents.

Although the Fund has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Fund's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Fund were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Fund were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Capital Expenditures

The timing and amount of capital expenditures by the Fund will directly affect the amount of cash available for distribution to unitholders. The cost of equipment has escalated over the past several years as a result of, among other things, more stringent emission controls and high input costs. There is no assurance that the Fund will be able to recover higher capital costs through rate increases to its customers, and in such event, cash distributions may be reduced.

Reliance on Major Customers

The top 10 customers of the Fund accounted for approximately 30.5 percent of the Fund's revenue for the year ended December 31, 2006 and the largest customer accounted for approximately 7.4 percent of such revenue. There can be no assurance that the Fund's current customers will continue their relationships with the Fund. The loss of one or more major customers, or any significant decrease in transportation services or oilfield services provided to a customer, prices paid, or any other changes to the terms of service with customers, could have a material adverse effect on the profitability of the Fund, and as a result, the amount of cash available for distribution to unitholders.

Regulation

Notwithstanding that the transportation industry is largely deregulated in terms of entry into the industry, each carrier must obtain a license from, or register with, provincial regulatory authorities in order to carry goods extra-provincially or to transport goods within any province. Licensing is also required from regulatory authorities in the United States for the transportation of goods between Canada and the United States. Changes in regulations applicable to the Fund could increase operating costs and have a material adverse effect on the Fund's operations and financial condition.

The right to continue to hold applicable licenses and permits is generally subject to maintaining satisfactory compliance with regulatory and safety guidelines, policies and regulations. Although the Fund is committed to compliance and safety through its operational excellence initiatives, there is no assurance that the Fund will be in full compliance at all times with such policies, guidelines and regulations. Consequently, at some future time, the Fund could be required to incur significant costs to maintain or improve its compliance record.

Access to Additional Financing

The Fund may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Fund when needed or on

terms acceptable to the Fund which could limit the Fund's growth and may have a material adverse effect upon the Fund.

Interest Rates

The Fund also has a risk of increased interest rates. At December 31, 2006 most of the debt was financed at fixed rates for 10 to 12 years which protect the Fund from interest rate increases. However the Fund could end up with those rates being higher than issuing floating rates.

Foreign Exchange

The Fund faces some foreign exchange risk if the Canadian dollar declines in value against the U.S. dollar, as $150.0 million of its debt is repayable in U.S. funds. This risk is partially offset by the fact that the Fund generates surplus U.S. funds in its operations. The Fund reduces this risk by matching U.S. dollar revenues with U.S. dollar expenses.

Weather and Seasonality

Harsh weather conditions can impede the movement of goods and increase the operating costs for the materials that can be transported, which can have a material adverse effect on the Fund's cash flow and, as a result, cash available for distribution to unitholders.

In general, the level of activity in the Canadian oilfield service industry is influenced by seasonal weather patterns. Wet weather and the spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and gas producing areas are only accessible in the winter months because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Fund. The Fund mitigates some of this risk by charging standby fees or by positioning equipment in strategic locations in order to take advantage of good weather conditions when they occur.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Fund makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets will be periodically disposed of so that the Fund can focus its efforts and resources more efficiently. Depending on the state of the market such non-core assets, if disposed of, could be expected to realize less than their carrying value on the consolidated financial statements of the Fund.

CRITICAL ACCOUNTING ESTIMATES

The Fund has to make several critical accounting estimates as detailed below:

(1) Depreciation

The method of calculating depreciation expense, as noted in note 1(c) of the 2006 Annuals, is an estimate. The Fund considers its method and rates of depreciation reasonably reflect the annual decline in the value of PP&E. These methods and rates used are validated by the fact that net gains or losses on sale of PP&E over the last 10 years have been minimal, which indicates that the net book value of assets approximates fair market value over an extended period of time.

(2) Goodwill

On an annual basis, the Fund assesses the goodwill for impairment. See Note 1(e) of the 2006 Annuals. In 2006 the assessment determined there was no impairment of goodwill, however the Fund will reassess this issue once the new trust tax regulations proposed by the Department of Finance have been enacted and passed: at that time the Fund will be in a better position to analyze goodwill impairment, if any, on the Fund's goodwill.

(3) Bad Debt Expense

The Fund routinely reviews accounts receivables and sets up a reserve for bad debts on a customer-by-customer basis. This is an estimate as some of the reserved accounts may be collected whereas we may subsequently find that some accounts currently deemed collectible, become uncollectible. The Fund considers its reserve at the end of December 31, 2006 to be reasonable.

(4) Unit-based Compensation (see notes 1(h), 9(d), 9(e) and 10 of the 2006 Annuals.)

The Fund applied the fair value method of all stock-based or unit-based payments and awards as set out in GAAP.

(5) Asset Retirement Obligations

The Fund is required annually to calculate and record any asset retirement obligations. At this time the Fund does not believe it has any asset retirement obligations of any significance.

(6) Disposal of Long-lived Assets and Discontinued Operations

PP&E is believed to approximate or be less than fair market value at the year end and at this time the Fund does not believe that it would have any material losses on any subsequent disposals. The Fund also has no plans to discontinue any operations at this time.

Financial Instruments

See Note 15 of the 2006 Annuals. The Fund does not have any other financial instruments other than those disclosed in notes 7, 12 and 15 of the 2006 Annuals.

OUTLOOK

In our outlook for 2006 we provided unitholders with an upbeat forecast for the Fund based upon our belief that high oil and natural gas pricing would translate into strong drilling activity in western Canada along with continued investment in the oilsands as well as other capital projects, both of which are major demand drivers of the Fund's business. We also reminded our unitholders that commodity prices can be volatile in the short term and as a result our Oilfield Services segment tends to be very cyclical. As it turns out the Fund's outlook was quite accurate on both predictions.

For 2007, management believes that the energy sector will remain volatile. In particular, we are of the opinion that natural gas drilling and related investments will be down sharply in 2007 resulting in a significant drop in demand for those services related to drilling activity. The Fund's Oilfield Services segment is highly leveraged to drilling activity in western Canada, as such, we expect revenues, operating income and net income to be negatively impacted. For the full year, however, we believe that 2007 will be another successful year for the Fund due to a combination of: full-year results from the eight acquisitions completed throughout 2006; continued strong demand for the services provided by the Fund's business units leveraged to the development of oilsands projects and related capital investments and leveraged to the servicing of producing oil wells, including the hauling of crude oil and fluids; and finally, continued growth in the economy, in particular western Canada.

On balance, the Fund believes the current business outlook accompanied by a strong balance sheet can support the current distribution of $1.80 per unit as well as Fund net capital additions of $35.0 million in 2007. Any sustained economic downturn or unexpected drop in drilling activity will however affect distributions to unitholders.

The Fund's future growth prospects and long-term outlook remains quite positive. We are of the opinion that the Fund will not return to peak earnings performance until annual drilling activity in western Canada recovers to the 25,000 well level and investors receive clarity on the Government of Canada's October 31, 2006 proposed announcement relating to the taxation of income trusts. The Fund continues to monitor both of these issues very carefully.

GLOSSARY OF TERMS AND RECONCILIATION OF NON-GAAP TERMS

The 2006 Annuals referred to are prepared according to GAAP. References to operating income, funds from operations, discretionary funds from operations, distributable cash, and return of invested capital are not measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors should be cautioned that these indicators should not replace net earnings as an indicator of GAAP performance.

Discretionary Funds from Operations

Discretionary funds from operations are funds from operations, less PP&E additions, plus proceeds on the sale of PP&E.

Calculation of Discretionary Funds from Operations

($ millions) **Years ended December 31, 2006 and 2005**	**2006**	2005
	$	$
Funds from operations	**195.3**	100.8
Add/(less):		
Property, plant and equipment additions	**(102.7)**	(32.8)
Proceeds on sale of property, plant and equipment	**17.4**	7.9
Discretionary funds from operations	**110.0**	75.9

Distributable Cash

Distributable cash is defined as cash flow from operations after non-cash working capital items, scheduled debt repayments, and maintenance capital expenditures. Maintenance capital expenditures represent expenditures incurred to sustain operations or the Fund's productive capacity over an economic cycle. The Fund believes that depreciation excluding depreciation from real property is necessary to sustain its operations.

Funds from Operations

Funds from operations is defined as funds provided by operations before changes in non-cash working capital items.

Reconciliation of Net Income to Funds from Operations

($ millions) **Years ended December 31, 2006 and 2005**	**2006**	2005
	$	$
Net income	**128.1**	70.0
Items not involving cash:		
Depreciation and amortization	**52.6**	22.5
Unit-based compensation	**2.6**	0.3
Unrealized loss on foreign exchange	**7.5**	3.7
Gain on sale of property, plant and equipment	**(1.4)**	(0.2)
Future income taxes	**6.9**	4.9
Earnings from equity investments	**(1.0)**	(0.4)
Funds from operations	**195.3**	100.8

Funds from Operations per Unit

Funds from operations per unit is calculated by dividing funds from operations by the weighted average number of units outstanding. The calculation of distributable cash was changed in 2005 to conform with guidelines set out on distributable cash in income trusts released by the Canadian Institute of Chartered Accountants.

($ millions except per unit and unit amounts)	**2006**	2005
	$	$
Funds from operations	**195.3**	100.8
Weighted number of units outstanding	**68,886,000**	46,261,000
Funds from operations per unit	**$ 2.84**	$ 2.18

Growth Capital Expenditures

Growth capital expenditures are capital expenditures required to expand the business.

Operating Income

Operating income is defined as net income before interest, unrealized loss on foreign exchange, income taxes, depreciation, amortization, earnings from equity investments, gains on the sale of PP&E and gains on the sale of investments. Operating income is a useful supplemental measure as it provides an indication of the results generated by the Fund's principal business activities prior to depreciation, financing, or taxation in various jurisdictions. The Fund's method of calculating operating income may differ from other companies and therefore may not be comparable.

Reconciliation of Net Income to Operating Income

($ millions) **Years ended December 31, 2006 and 2005**	**2006**	2005
	$	$
Net income	**128.1**	70.0
Add:		
Earnings from equity investments	**(1.0)**	(0.4)
Provision for income taxes	**2.6**	19.0
Gain on sale of property, plant and equipment	**(1.4)**	(0.2)
Unrealized loss on foreign exchange	**7.5**	–
Other interest	**0.2**	0.1
Interest on long-term debt	**13.5**	1.8
Depreciation and amortization	**52.6**	22.4
Operating income	**202.1**	112.7

Payout Ratio

Payout ratio is calculated as cash distributions declared divided by the distributable cash.

Calculation of Payout Ratio ($ million)	Year ended December 31, 2006 (Audited)	Six months ended December 31, 2005 (Unaudited)
Cash distributions declared	$ 124.0	$ 38.1
Distributable cash	$ 148.1	$ 16.1
Payout ratio	83.7%	236.6%

Return on Invested Capital

Return on Invested Capital ("ROIC") is calculated by dividing earnings before interest, unrealized foreign exchange loss and taxes by the average of the total of long-term debt and equity during the year.

Calculation of Return on Invested Capital

($ millions) Years ended December 31, 2006 and 2005	2006	2005
Net income	$ 128.1	$ 70.0
Add:		
Provision for income taxes	2.6	19.0
Interest on long-term debt	13.5	1.9
Other interest	0.2	0.1
Unrealized foreign exchange loss	7.5	–
Return	$ 151.9	$ 91.0
Long-term debt, beginning of year	$ 51.5	$ 39.2
Long-term debt, end of the year	346.7	51.5
Average long-term debt	199.1	45.4
Equity, beginning of year	327.9	268.0
Equity, end of year	1,424.1	327.9
Average equity	876.0	298.0
Average capital (average long-term debt and average equity)	$ 1,075.1	$ 343.4
Return on invested capital (return divided by average capital)	14.1%	26.5%

Restated Amounts

(a) Restated amounts or percentages for years 2003 and 2002 ("restated") reflect the retroactive adoption of the new Canadian accounting standards that apply to the fair value method of all stock-based payments and awards.

(b) Certain amounts for the years 2004, 2003 and 2002 are restated to account for the effect of converting each share to a total of three Trust Units or B Units.

March 6, 2007

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Mullen Group
INCOME FUND

2006 CONSOLIDATED FINANCIAL STATEMENTS

AND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO THE UNITHOLDERS

The accompanying consolidated financial statements of Mullen Group Income Fund (the "Fund") have been approved by the Board of Directors and have been prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with these consolidated financial statements. In preparing this report, the Fund undertakes steps to ensure the information presented is accurate and conforms to applicable laws and standards, including:

- The Board of Directors and management have established corporate governance practices that are consistent with guidelines set out in the report issued by The Toronto Stock Exchange Committee on Corporate Governance in Canada.
- Management maintains accounting control systems designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, financial records are accurately maintained and statements are generated in a timely manner.
- The Board of Directors oversees the management of the business and the affairs for the Fund including ensuring management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.
- The Audit Committee of the Board of Directors, comprised of four members considered to be "outside and unrelated" directors, has reviewed the consolidated financial statements with management and the external auditors.
- Management, with the participation of the Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of the Fund's disclosure controls and procedures (as defined in the rules of the CSA) and has concluded that such disclosure controls and procedures are effective.
- Management has evaluated the design of internal controls over financial reporting and has concluded the design is effective except for issues with the complexity of accounting and income tax issues and with certain deficiencies related to segregation of duties.
- An independent firm of chartered accountants, appointed as external auditors by the unitholders has audited the consolidated financial statements and its report is included below.

Murray K. Mullen
Chairman, Chief Executive Officer and Director

David E. Olson
Vice-President, Finance and Chief Financial Officer

March 6, 2007

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Mullen Group Income Fund as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"SIGNED"

KPMG LLP
Chartered Accountants
Calgary, Canada

March 6, 2007

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

(in thousands of dollars)	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 49,398	$ –
Accounts receivable	209,545	112,521
Income taxes recoverable	6,834	2,815
Prepaid expenses	27,675	13,453
	293,452	128,789
Investments (note 3)	1,825	6,628
Property, plant and equipment (note 4)	558,522	218,357
Goodwill	1,041,827	131,344
Intangible assets (note 5)	116,284	8,800
Other assets (note 6)	9,335	14,701
	$ 2,021,245	$ 508,619
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness	$ –	$ 21,867
Accounts payable and accrued liabilities	107,423	54,464
Distributions payable	12,291	6,380
Current portion of long-term debt (note 7)	21,734	549
	141,448	83,260
Long-term debt (note 7)	325,002	50,985
Future income taxes (note 8)	130,729	46,502
Unitholders' equity:		
Unitholders' capital (note 9)	1,201,677	98,991
Contributed surplus (note 10)	7,839	330
Retained earnings	214,550	228,551
	1,424,066	327,872
Commitments and contingencies (note 12)		
	$ 2,021,245	$ 508,619

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Murray K. Mullen, Director

Dennis J. Hoffman, Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31, 2006 and 2005

(in thousands of dollars, except per unit amounts)	2006	2005
Revenue	**$ 1,003,287**	$ 591,728
Expenses:		
Direct operating	**682,132**	411,893
Selling and administrative	**119,090**	67,118
	202,065	112,717
Depreciation on property, plant and equipment	**41,730**	21,145
Amortization on intangible assets	**10,905**	1,345
Interest on long-term debt	**13,410**	1,853
Other interest	**202**	66
Unrealized loss on foreign exchange	**7,500**	–
Gain on sale of property, plant and equipment	**(1,256)**	(214)
Gain on sale of investments	**(115)**	–
Income before income taxes and earnings from equity investments	**129,689**	88,522
Provision for income taxes (note 8):		
Current (recovery)	**(4,311)**	14,017
Future	**6,866**	4,933
	2,555	18,950
Income before earnings from equity investments	**127,134**	69,572
Earnings from equity investments	**998**	391
Net income	**$ 128,132**	$ 69,963
Retained earnings, beginning of year	**$ 228,551**	$ 196,832
Distributions declared to unitholders	**(124,037)**	(38,244)
Split off of Horizon North Logistics Inc. (note 2)	**(18,096)**	–
Retained earnings, end of year	**$ 214,550**	$ 228,551
Earnings per unit (note 11):		
Basic	**$ 1.86**	$ 1.51
Diluted	**$ 1.86**	$ 1.51
Weighted average number of units outstanding:		
Basic	**68,886**	46,261
Diluted	**68,886**	46,322

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

(in thousands of dollars)	**2006**	2005
Cash provided by (used in):		
Operations:		
Net income	**$ 128,132**	$ 69,963
Items not involving cash:		
Depreciation on property, plant and equipment	**41,730**	21,145
Amortization on intangible assets	**10,905**	1,345
Unit-based compensation	**2,581**	330
Stock-based compensation	**–**	3,660
Unrealized loss on foreign exchange	**7,500**	–
Gain on sale of property, plant and equipment	**(1,256)**	(214)
Gain on sale of investments	**(115)**	–
Future income taxes	**6,866**	4,933
Earnings from equity investments	**(998)**	(391)
	195,345	100,771
Changes in non-cash working capital items	**(3,168)**	(30,105)
	192,177	70,666
Financing activities:		
Change in bank indebtedness	**(28,018)**	16,616
Proceeds of long-term debt	**334,100**	10,370
Repayment of long-term debt	**(162,393)**	–
Proceeds from common share issuances	**–**	3,146
Proceeds from Trust Unit issuances	**97,036**	9,055
Dividends paid	**–**	(3,765)
Distributions paid	**(118,124)**	(31,864)
	122,601	3,558
Investing activities:		
Acquisitions (note 2)	**(182,139)**	(46,155)
Property, plant and equipment additions	**(102,705)**	(32,790)
Proceeds on sale of property, plant and equipment	**17,408**	7,916
Proceeds on sale of investments	**141**	–
Cash distribution from equity investee	**–**	494
Investments	**–**	(150)
Other assets	**1,915**	(3,539)
	(265,380)	(74,224)
Change in cash	**49,398**	–
Cash, beginning of year	**–**	–
Cash, end of year	**$ 49,398**	$ –
Supplemental cash flow information:		
Interest paid	**$ 10,798**	$ 1,919
Income taxes paid	**$ 11,537**	$ 19,833

See accompanying notes to the consolidated financial statements

1. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

(a) Basis of presentation

Mullen Group Income Fund ("Mullen" and/or the "Fund") is an unincorporated investment trust. The business of the Fund is held in wholly-owned subsidiaries and limited partnerships. The business of Mullen is a diversified transportation and oilfield service organization with its activities divided into two distinct business segments; Oilfield Services and Trucking.

The Fund is an unincorporated open-ended investment trust governed by the laws of the Province of Alberta and created pursuant to a declaration of trust dated as of June 3, 2005. Pursuant to the provisions of section 193 of the Business Corporations Act (Alberta), Mullen Transportation Inc. ("MTI" and/or the "Company"), Mullen Acquisition Corp. ("Acquisition Co."), certain subsidiaries of MTI and certain other corporations were amalgamated, effective as of July 1, 2005 to form MT Investments Inc. ("MT"). MT is wholly-owned by Mullen Co. Limited Partnership ("MCLP"). MCLP is 75 percent owned by Mullen Holding Trust ("MHT") and the balance of MCLP is owned by other third parties. MHT is wholly-owned by the Fund. CIBC Mellon Trust Company has been appointed Trustee under the Fund. The beneficiaries of the Fund are the holders of the trust units ("Trust Units") issued by the Fund ("unitholders"). Prior to the Plan of Arrangement ("the Plan") effective date of July 1, 2005 the consolidated financial statements included the accounts of MTI, its subsidiaries and its partnerships, all of which were wholly-owned. The conversion to a Trust has been accounted for on a continuity-of-interest basis and accordingly, the consolidated financial statements for 2005 and 2006 reflect the financial position, results of operations and cash flows as if the Fund had always carried on business formerly carried on by MTI. Due to the conversion to a trust, certain information included in the consolidated financial statements for prior periods may not be directly comparable. For purposes of the consolidated financial statements, the share capital of MTI is reported under Unitholders' Equity (note 9). Pursuant to the Plan, shareholders received either three Trust Units of the Fund or a combination totalling three units per share of Trust Units and Mullen Co. Limited Partnership "B" units ("B Units") for each previously held common share of MTI.

After giving effect to the Plan, the consolidated financial statements include the accounts of the Fund, its subsidiaries and its limited partnerships. The accompanying audited consolidated financial statements for the Fund have been prepared in accordance with GAAP for consolidated financial statements.

Certain comparative figures have been reclassified to conform with the current consolidated financial statement presentation.

(b) Investments

Investments in affiliates over which the Fund has significant influence are accounted for using the equity method. Portfolio investments are carried at lower of cost or market value. If management determines there is a permanent decline in value in underlying assets and no expectation of future earnings, these investments are written down to net realizable value.

1. Significant Accounting Policies (continued)

(c) Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost. Depreciation on additions and disposals is prorated from the month of purchase or disposal. Depreciation is provided annually over the estimated useful lives of the assets on the declining balance basis at the following rates:

Assets	Rate
Buildings	2.5 – 8%
Trucks and trailers	10 – 20%
Equipment, furniture and fixtures	20%
Automobiles, computer equipment and computer software	30 – 50%
Satellite communications equipment	20%

Drilling rigs are depreciated by the unit-of-production method based on 1,500 operating days with a 20 percent residual value.

(d) Intangible assets and amortization

Intangible assets are amortized on a straight-line basis over five to ten years.

(e) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed, based on their fair values.

Goodwill is allocated, as of the date of the business combination, to the Fund's reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized, but is tested for permanent impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of a reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the current year's assessment no impairment loss has been recognized.

1. Significant Accounting Policies (continued)

(f) Revenue recognition

The Fund's services are provided based upon orders and contracts with the customer that include fixed or determinable prices based upon daily, hourly or job rates. Contract terms do not include provision for post-service obligations. Revenue is recognized when services are rendered and when collectability is reasonably assured.

(g) Income taxes

The Fund and its subsidiaries follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs.

Income earned directly by MCLP and its subsidiary partnerships are not subject to income taxes as the income is taxed directly to the MCLP partners. The Fund is a taxable entity under the Income Tax Act (Canada) and income earned is taxable only to the extent it is not distributed or distributable to its unitholders. As the Fund distributes all of its taxable income to its respective unitholders pursuant to the requirements of the trust indenture, it does not make a provision for future income taxes.

During 2006, the taxation authorities have released for comment draft legislation which would result in a tax structure for trusts similar to that of corporations. If the proposed legislation is implemented, the Fund would be required to recognize, on a prospective basis, future income taxes on temporary differences not currently recognized in the Fund.

(h) Unit-based compensation plan

The Fund has a unit-based compensation plan, which is described in note 9(d). The Fund utilizes the fair value method to account for options. Under the fair value method, the fair value of options is calculated at the date of grant and that value is recorded as compensation expense over the vesting periods of those grants, with a corresponding increase to contributed surplus. When options are exercised, the proceeds received by the Fund, along with the amount in contributed surplus, will be credited to unitholders' capital.

(i) Per unit amounts

Basic per unit amounts are calculated using the weighted average number of units outstanding during the year. Diluted per unit amounts are calculated based on the treasury stock method which assumes that any proceeds obtained on exercise of options would be used to purchase Trust Units at the average market prices during the period. The weighted average number of units outstanding is then adjusted by the net change. Per unit amounts reflect the effect of the Plan, whereby shareholders received either three Trust Units or a combination totalling three units per share of Trust Units and B Units for each previously held common share of MTI.

(j) Cash and cash equivalents

Cash and cash equivalents are restricted to cash and highly liquid investments having an initial term of three months or less and are presented at cost which approximates market value.

2. Acquisitions and Dispositions

(a) On January 12, 2006, the Fund acquired the remaining outstanding shares of Pe Ben Oilfield Services Ltd. ("Pe Ben"), a public transportation company for $56.0 million. The $56.0 million was comprised of $18.50 for each outstanding Pe Ben share and the original portfolio investment purchase of $1.4 million incurred prior to 2006. Results from Pe Ben's Canadian oilfield transportation and pipeline stringing operations are included in the Oilfield Services segment. Results from Pe Ben's liquid bulk transport operations ("Pe Ben Bulk") are included in the Trucking/Logistics segment.

On May 1, 2006, the Fund acquired all of the outstanding shares of Kleysen Investments Limited ("Kleysen") for consideration of $60.3 million and 154,875 trust units at a value of $5.0 million for a total of $65.3 million. Kleysen is a Winnipeg based transportation and logistics company offering four major integrated services including: bulk transportation, deck transportation, multi-commodity transload services and intermodal transportation services. Kleysen's results from operations are included in the Trucking/Logistics segment.

On June 1, 2006, the Fund completed a Plan of Arrangement (the "Arrangement") whereby it acquired all of the outstanding shares of Producers Oilfield Services Inc. ("Producers") by issuing 19.9 million Trust Units and 11.2 million B units at a combined value of $1.0 billion. Producers provides specialized oilfield transportation solutions to its customers in the oil and gas industry in western Canada. The results from operations of Producers are included in the Oilfield Services segment.

On June 1, 2006, pursuant to the Arrangement, the Fund transferred its northern assets consisting of Beaufort Logistics Inc., Beaufort Oilfield Support Services Ltd., MacKenzie Delta Integrated Oilfield Services Ltd. and MacKenzie Valley Logistics Inc. into Horizon North Logistics Inc. ("Horizon"). The assets transferred totaled $18.1 million which was distributed to unitholders by way of Horizon common shares and purchase warrants on closing of the Arrangement. As a result, the $18.1 million amount transferred has been included as a reduction to retained earnings in the second quarter of 2006.

On February 28, 2006 the Fund acquired all the outstanding shares of Spearing Service Ltd. ("Spearing"), Burnell Contractors Ltd. ("Burnell") and C. Steen Trucking Ltd. ("Steen"). On July 31, 2006, the Fund acquired all the outstanding shares of Canadian Dewatering Limited ("Canadian Dewatering"). On November 6, 2006, the Fund made its final acquisition of the year acquiring Carl Brady Trucking Ltd. and Brady Sand & Gravel Ltd. ("Brady"). Total consideration for these acquisitions was $65.0 million. Spearing's business, based out of Saskatchewan, involves the hauling of crude oil, produced water and other fluids associated with the production of crude oil. Burnell is a Calgary based company involved in providing specialized transportation services to the energy, pipeline, petrochemical and construction industries. The results from operations of Spearing and Burnell are included in the Oilfield Services segment. Steen is a flat deck carrier with operations based out of Edmonton. Steen's results from operations are included in the Trucking/Logistics segment. Canadian Dewatering is a British Columbia based company offering contract dewatering services and the rental and sale of pumps and support equipment. Canadian Dewatering's results from operations are included in the Oilfield Services Segment. Based out of Halbrite, Saskatchewan, Brady provides hauling services to the oil industry in the Midale and Weyburn fields located in southeastern Saskatchewan. The results from operations of Brady are included in the Oilfield Services segment.

(Tabular amounts in thousands, except per unit and unit amounts)

2. Acquisitions and Dispositions (continued)

These acquisitions have been accounted for by the purchase method, and results of operations have been included in these consolidated financial statements from the date of acquisition. Details of the acquisitions are as follows:

2006	Producers	Kleysen	Pe Ben	Other [1]	Total
Assets:					
Non-cash working capital items	$ 32,852	$ 7,429	$ 13,668	$ 8,693	$ 62,642
Property, plant and equipment	172,331	51,114	36,389	35,508	295,342
Other assets	9,953	536	75	14	10,578
Intangible assets	88,150	9,800	3,180	17,259	118,389
Goodwill	842,082	34,099	18,108	16,194	910,483
	1,145,368	102,978	71,420	77,668	1,397,434
Assumed liabilities:					
Bank indebtedness	–	4,447	1,487	3,441	9,375
Due to shareholder	–	–	–	3,504	3,504
Long-term debt	76,485	20,468	11,941	7,101	115,995
Future income taxes	62,488	12,813	1,984	76	77,361
	138,973	37,728	15,412	14,122	206,235
Net assets before cash position	1,006,395	65,250	56,008	63,546	1,191,199
Cash position	1,789	–	–	1,435	3,224
Net assets	$1,008,184	$ 65,250	$ 56,008	$ 64,981	$1,194,423
Consideration:					
Cash	$ 900	$ 60,250	$ 56,008	$ 64,981	$ 182,139
Trust Units (20,045,110)	640,000	5,000	–	–	645,000
B Units (11,182,275)	359,808	–	–	–	359,808
Options issued (789,429)	7,476	–	–	–	7,476
	$1,008,184	$ 65,250	$ 56,008	$ 64,981	$1,194,423

[1] Other consists of Spearing, Burnell, Steen, Canadian Dewatering and Brady.

(b) On April 30, 2005 the Fund acquired all of the issued and outstanding shares of Tenold Transportation Inc. ("Tenold"), a private trucking company, which is included in the Trucking/Logistics segment, for consideration of $24.1 million.

In 2000, the Fund acquired a 45 percent interest in Payne Transportation Inc. ("Payne"), a start-up long-haul transportation company. On June 14, 2005 the Fund acquired the remaining 55 percent of all the issued and outstanding shares of Payne for consideration of $9.9 million. The Fund included in its 2005 net income $0.4 million of earnings from this equity investment (2004 – $0.5 million). Since June 14, 2005 results of operations have been included in the Trucking/Logistics segment.

On August 31, 2005 the Fund acquired the business and certain assets of Schmidt Drilling Ltd. L.P. ("Schmidt"), a privately-held corporation engaged in the drilling services industry, which is included in the Oilfield Services segment, for consideration of $25.6 million.

(Tabular amounts in thousands, except per unit and unit amounts)

2. Acquisitions and Dispositions (continued)

On November 30, 2005 the Fund acquired the business and certain assets of Friday's Transport Inc. ("Fridays"), a privately-held corporation engaged in dry bulk hauling, which is included in the Trucking/Logistics segment, for consideration of $0.8 million.

2005	Schmidt	Tenold	Payne	Fridays	Total
Assets:					
Non-cash working capital items	$ 346	$ 2,131	$ 2,268	$ –	$ 4,745
Property, plant and equipment	15,480	5,821	3,331	346	24,978
Intangibles	2,000	6,000	1,000	496	9,496
Goodwill	10,343	15,209	4,708		30,260
	28,169	29,161	11,307	842	69,479
Assumed liabilities:					
Bank indebtedness	697	2,130	517	–	3,344
Long-term debt	1,789	–	199	–	1,988
Future income taxes	119	2,931	658	–	3,708
	2,605	5,061	1,374	–	9,040
Net assets	$ 25,564	$ 24,100	$ 9,933	$ 842	$ 60,439
Consideration:					
Cash	$ 19,676	$ 24,100	$ 1,537	$ 842	$ 46,155
Common shares issued (100,000)	–	–	6,100	–	6,100
Units issued (250,000)	5,888	–	–	–	5,888
Equity in earnings of affiliate	–	–	2,296	–	2,296
	$ 25,564	$ 24,100	$ 9,933	$ 842	$ 60,439

3. Investments

	2006	2005
Portfolio investments, at cost	$ –	$ 1,526
Investments accounted for by the equity method	**1,825**	5,102
	$ 1,825	$ 6,628
Market value of portfolio investments	$ –	$ 5,720

4. Property, Plant and Equipment

2006	**Cost**	**Accumulated depreciation**	**Net book value**
Land	**$ 43,040**	**$ –**	**$ 43,040**
Buildings	**93,463**	**8,525**	**84,938**
Drilling equipment	**31,678**	**3,734**	**27,944**
Trucks and trailers	**408,090**	**87,315**	**320,775**
Equipment, furniture and fixtures	**92,484**	**24,415**	**68,069**
Automobiles, computer equipment and computer software	**25,161**	**15,235**	**9,926**
Satellite communications equipment	**7,904**	**4,074**	**3,830**
	$ 701,820	**$ 143,298**	**$ 558,522**

(Tabular amounts in thousands, except per unit and unit amounts)

4. Property, Plant and Equipment (continued)

2005	Cost	Accumulated depreciation	Net book value
Land	$ 11,901	$ –	$ 11,901
Buildings	28,512	5,573	22,939
Drilling equipment	29,830	2,533	27,297
Trucks and trailers	197,527	71,432	126,095
Equipment, furniture and fixtures	36,883	15,172	21,711
Automobiles, computer equipment and computer software	17,598	10,917	6,681
Satellite communications equipment	5,239	3,506	1,733
	$ 327,490	$ 109,133	$ 218,357

Property, plant and equipment include equipment under capital leases which is recorded at the present value of the payments provided for under these leases which total $9,610,000 (2005 - $322,000), less accumulated depreciation of $749,000 (2005 - $11,000).

5. Intangible Assets

	2006	2005
Intangible assets - cost	**$ 129,658**	$ 11,269
Less: accumulated amortization	**13,374**	2,469
	$ 116,284	$ 8,800

Intangible assets are mainly comprised of non-competition agreements and customer relationships. Intangible assets are amortized over their estimated life.

6. Other Assets

Other assets are comprised of deferred compensation, deferred private debt costs, amounts due from related parties and other as follows:

	2006	2005
Deferred compensation	**$ 4,224**	$ –
Deferred private debt costs	**1,525**	–
Due from related parties (note 14)		
Non-interest bearing, secured loan, repayable on demand	**–**	4,000
Non-interest bearing, unsecured loan, repayable on demand	**–**	6,300
Non-interest bearing, unsecured loan	**540**	–
Interest bearing, secured loan, repayable on demand	**–**	500
Interest bearing, secured loan	**667**	–
	6,956	10,800
Other	**2,379**	3,901
	$ 9,335	$ 14,701

The deferred compensation asset arose from the unearned stock-based compensation resulting from the exchange of stock options for Trust Unit options in the Producers acquisition.

(Tabular amounts in thousands, except per unit and unit amounts)

7. Long-term Debt

	2006	2005
Bank facility (a)	$ 18,600	$ 50,000
Private Placement (b)	315,500	–
Term loan bearing interest at 6.3%. The loan is repayable in blended principal and interest payments of $57,732 and matures in February, 2014.	3,995	–
Various financing loans with rates of 0% with monthly principal payments not exceeding $5,351. These loans are secured by specific operating equipment.	211	169
Various financing loans with rates at 2.35% and 7.84% with monthly blended principal and interest payments not exceeding $29,080. These loans are secured by specific operating equipment.	6,952	887
Various Mortgage facility with a rate of 4.5% with blended principal and interest payments of $17,029. This mortgage is secured by specific land, building and operating equipment.	1,278	–
Vendor Mortgage, non-interest bearing, secured by a general security agreement covering specific operating assets.	200	–
Mortgage facility with rates at 6.45% with blended principal and interest payments of $9,077. This mortgage is secured by specific land and buildings.	–	478
	346,736	51,534
Less: current portion	21,734	549
	$ 325,002	$ 50,985

Aggregate principal repayments of long-term debt are as follows:

2007	$ 21,734
2008	2,831
2009	2,729
2010	1,219
2011 and thereafter	318,223
	$ 346,736

(Tabular amounts in thousands, except per unit and unit amounts)

7. Long-term Debt (continued)

(a) The Fund has available a $150.0 million extendible revolving 364-day term facility convertible to a one year reducing facility. Interest is payable monthly and is based on either the bank prime rate or bankers' acceptance rates plus a prime acceptance fee which varies from 0.85% to 2.0% per annum based upon achieving certain financial ratios.

(b) On June 29, 2006, the Fund issued Senior Guaranteed Unsecured Notes by way of private placement of US $100.0 million of Series A Notes, US $50.0 million of Series B Notes, CDN $70.0 million of Series C Notes and CDN $70.0 million of Series D Notes. The Series A and Series C Notes mature June 30, 2016 and the Series B and Series D Notes mature June 30, 2018. The Series A, Series B, Series C, and Series D Notes bear interest of 6.29%, 6.39%, 5.60% and 5.76% per annum, respectively. Interest is payable semi-annually.

8. Income Taxes

The provision for income taxes differs from the amounts which would be obtained by applying the expected Canadian statutory rates as follows:

	2006	2005
Income before income taxes and earnings from equity investments	$ 129,689	$ 88,522
Income tax rate	33%	34%
Computed expected income tax expense	42,797	30,097
Add (less):		
Amounts included in Trust income	(31,313)	(10,916)
Large corporation tax	(400)	963
Non-deductible unit-based compensation	700	1,355
Reduction of future tax balances due to substantively enacted income tax rate changes	(11,220)	–
Other	1,991	(2,549)
Provision for income taxes	$ 2,555	$ 18,950

The net future income tax liability results of the subsidiary corporations of the Fund is comprised of the tax effect of the following temporary differences:

	2006	2005
Liabilities:		
Property, plant and equipment	$ 71,614	$ 35,509
Partnership income	42,276	17,411
Intangibles assets and other	24,984	–
Assets:		
Loss carryforwards	(7,152)	(6,418)
Financing fees	(993)	(345)
Intangibles and other	–	(55)
Future income tax liability	$ 130,729	$ 46,502

The Fund owns eight businesses, the operating results of which flow through to the Fund, as these businesses are flow-through entities not owned by the Fund's subsidiary, MT. Temporary income tax differences between the book value of certain assets and the tax value of these assets for these businesses do not result in future income taxes in the Fund's consolidated financial statements. These temporary differences amount to approximately $50.5 million at December 31, 2006 ($12.1 million – 2005).

(Tabular amounts in thousands, except per unit and unit amounts)

9. Unitholders' Capital

On July 1, 2005 the Fund converted to an open-ended investment trust named Mullen Group Income Fund pursuant to the Plan. The Plan resulted in shareholders receiving three Trust Units or three B Units, or a combination thereof, for each previously held common share.

(a) *Common shares:*

	Common shares		Amount
Balance at December 31, 2004	15,061,996	$	68,525
Issued for options exercised	171,050		3,848
Shares issued for Payne acquisition	100,000		6,100
Balance at June 30, 2005	**15,333,046**	**$**	**78,473**

On July 1, 2005 all outstanding common shares and stock options converted on a 3:1 basis for Trust Units and B Units resulting in the conversion of 15,333,046 common shares to 36,503,589 Trust Units and 9,495,549 B Units and 366,150 stock options converting to 1,098,450 Trust Unit options. Units refers to Trust Units and B Units as they are both economically equivalent.

(b) *Trust Units*

Authorized:

Unlimited number of Trust Units

	Trust Units		Amount
Balance at June 30, 2005	–	$	–
Issued for common shares under the Plan	36,503,589		62,274
Issued for options exercised	1,006,618		14,630
Units issued for Schmidt acquisition	250,000		5,888
Balance at December 31, 2005	37,760,207	$	82,792
Units issued for cash (net of unit issue costs of $5.6 million)	3,400,000		96,400
Units issued for Kleysen acquisition	154,875		5,000
Units issued for Producers acquisition	19,890,235		640,000
Issued for options exercised	56,442		1,478
Issued on exchange of B Units	66,979		1,218
Balance at December 31, 2006	**61,328,738**	**$**	**826,888**

On January 12, 2006 the Fund raised $96.4 million of net equity with the issuance of 3,400,000 Trust Units. Proceeds were net of share issue costs of $5.6 million. On May 1, 2006 the Fund issued 154,875 Trust Units at a value of $5.0 million as part of the Kleysen acquisition. On June 1, 2006 the Fund issued 19,890,235 Trust Units at a value of $640.0 million as part of the Producers acquisition.

(Tabular amounts in thousands, except per unit and unit amounts)

9. Unitholders' Capital (continued)

(c) B Units

Authorized:

Unlimited number of B Units

B Units are exchangeable for Trust Units on a one-for-one basis at any time after December 31, 2005 at the option of the holder.

	B Units	Amount
Balance at June 30, 2005	–	$ –
Issued for common shares under the Plan	9,495,549	16,199
Balance at December 31, 2005	**9,495,549**	**$ 16,199**
Units issued for Producers acquisition	11,182,275	359,808
Issued on exchange of Trust Units	(66,979)	(1,218)
Balance at December 31, 2006	**20,610,845**	**$ 374,789**

On June 1, 2006 the Fund issued 11,182,275 B Units at a value of $359.8 million as part of the Producers acquisition.

Summary:

	# of Units	Amount
Trust Units	61,328,738	$ 826,888
B Units	20,610,845	374,789
Unitholders' capital at December 31, 2006	**81,939,583**	**$ 1,201,677**

(Tabular amounts in thousands, except per unit and unit amounts)

9. Unitholders' Capital (continued)

(d) Unit-based compensation plan

In accordance with the Plan, all outstanding stock options of the Fund vested and were required to be exercised by July 15, 2005.

	Options		Weighted average exercise price
Outstanding, December 31, 2004	543,700	$	26.49
Granted	–		–
Exercised	(171,050)		(18.39)
Cancelled	(6,500)		(24.60)
Outstanding – June 30, 2005	**366,150**	**$**	**30.31**
Converted on a 3:1 basis per Trust Options	1,098,450		10.10
Granted	2,550,000		20.66
Exercised	(1,006,618)		(10.10)
Cancelled	(91,832)		10.10
Outstanding – December 31, 2005	**2,550,000**	**$**	**20.66**
Granted as part of Producers acquisition	789,429		16.26
Exercised	(56,442)		(11.26)
Cancelled	(103,954)		(18.57)
Outstanding – December 31, 2006	**3,179,033**	**$**	**19.28**
Exercisable – December 31, 2006	147,872	$	18.30

(e) On July 19, 2005 the Board of Directors implemented a new form of unit option plan (the "Option Plan") for certain directors, officers and employees. As at December 31, 2006 there are Trust Options outstanding to purchase 2,550,000 Trust Units with prices ranging from $19.91 to $24.85 per Trust Unit with expiry dates ranging from July 19, 2010 to September 9, 2010.

Under the Option Plan, the Fund may grant additional Trust Options to its employees and directors for 1,950,000 Trust Units which have been reserved for this purpose. Under the Option Plan, the exercise price of a Trust Option granted under the Option Plan shall be as determined by the Board of Directors when that Trust Option is granted subject to any limitations imposed by any relevant stock exchange or regulatory authority, and shall be an amount at least equal to the market value of the Trust Units.

In 2005, the Fund granted 2,550,000 Trust Options ranging in prices from $20.56 to $25.50. In 2006, these Trust Options were revalued to range in prices from $19.91 to $24.85 due to the spinout of Horizon. The per unit weighted average fair value of Trust Options granted during the year has been estimated at $1.13 using the Black-Scholes option pricing model, resulting in $330,000 in unit-based compensation costs.

(Tabular amounts in thousands, except per unit and unit amounts)

9. Unitholders' Capital (continued)

The range of exercise prices for options outstanding at December 31, 2006 are as follows:

	Options Outstanding			Exercisable Options	
Range of exercise Prices	Number	Weighted Average Remaining Contractual life (years)	Weighted average exercise price	Number	Weighted average exercise Price
$1.59 to 9.99	130,359	8.0	$ 8.22	2,222	$ 1.59
$10.00 to 19.99	2,854,136	4.2	19.57	95,428	17.42
$20.00 to 29.99	174,540	8.5	21.14	50,222	20.72
$30.00 to 33.09	19,998	9.4	33.09	–	–
$1.59 to 33.09	3,179,033	4.6	$ 19.28	147,872	$ 18.30

Unit-Based Compensation

The following weighted average assumptions were used to determine the fair value of the options on date of grant:

Risk-free interest rate	3.63%
Expected life	5.9 years
Maximum life	10 years
Expected distribution	$1.80 per Trust Unit
Expected Trust Unit price volatility	22.02%

Summary of stock-based and unit-based compensation:

	2006	2005
Stock-based compensation plan	$ –	$ 3,660
Unit-based compensation plan	**2,581**	330
	$ 2,581	$ 3,990

(Tabular amounts in thousands, except per unit and unit amounts)

10. Contributed Surplus

The Fund records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to compensation expense and contributed surplus. When options are exercised, the fair value amount in contributed surplus is credited to unitholders' capital.

	Amount
Balance at December 31, 2004	$ 2,618
Stock-based compensation expense	3,661
Stock options exercised	(6,279)
Unit-based compensation expense	330
Balance at December 31, 2005	$ 330
Deferred compensation (note 6)	4,224
Options vested upon Producers acquisition	1,546
Unit-based compensation expense	2,581
Unit options exercised	(842)
Balance at December 31, 2006	**$ 7,839**

11. Per Unit Amounts

Basic per unit amounts have been calculated on the weighted average number of units outstanding during the year. The weighted average units outstanding for the year ended December 31, 2006 was 68,886,000 (2005 – 46,261,000).

Diluted per unit amounts are calculated to reflect the dilutive effect of the exercise of options outstanding. The diluted units for the year ended December 31, 2006 was 68,886,000 (2005 – 46,322,000). The weighted average units outstanding were anti-dilutive as at December 31, 2006.

12. Commitments and Contingencies

(a) Commitments:

The Fund is committed to payments under operating leases for equipment and buildings to 2011. Annual minimum payments required subsequent to 2006 are as follows:

2007	$ 18,549
2008	13,882
2009	10,165
2010	4,369
2011	1,196

(b) Contingencies:

The Fund is party to legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the Fund's financial positions, results of operations or cash flows.

(Tabular amounts in thousands, except per unit and unit amounts)

13. Segmented Information

The Fund conducts its business through wholly-owned subsidiaries and limited partnerships which are categorized into two business segments. The Oilfield Services segment provides transportation, drilling and other services to the oil and gas industry which includes exploration and development companies and production and gas transmission companies. The Trucking/Logistics segment provides both long-haul and local transportation services to customers in various industries.

Amounts between different segments are not eliminated in reporting revenue and operating income by business segment. They are eliminated in reporting total consolidated revenue and operating income. Operating income is defined as net income before income taxes, interest, unrealized loss on foreign exchange, depreciation, amortization, earnings from equity investments, gains on sale of property, plant and equipment and gains on sale of investments.

				Intersegment eliminations		
2006	**Oilfield Services**	**Trucking/ Logistics**	**Corporate**	**Oilfield Services**	**Trucking/ Logistics**	**Total**
Revenue	**$ 604,270**	**$ 400,417**	**$ 2,279**	**$ (1,901)**	**$ (1,778)**	**$ 1,003,287**
Operating income	**141,587**	**60,751**	**(273)**	**–**	**–**	**202,065**
Depreciation	**32,792**	**7,421**	**1,517**	**–**	**–**	**41,730**
Amortization	**7,693**	**3,197**	**15**	**–**	**–**	**10,905**
Total assets	**1,642,976**	**253,197**	**125,072**	**–**	**–**	**2,021,245**
Capital expenditures [(1)]	**79,905**	**16,818**	**6,590**	**–**	**(608)**	**102,705**
Goodwill	**962,181**	**73,465**	**6,181**	**–**	**–**	**1,041,827**

				Intersegment eliminations		
2005	Oilfield Services	Trucking/ Logistics	Corporate	Oilfield Services	Trucking/ Logistics	Total
Revenue	$ 338,734	$ 256,378	$ 248	$ (1,589)	$ (2,043)	$ 591,728
Operating income	78,371	38,771	(4,425)	–	–	112,717
Depreciation	16,341	4,483	321	–	–	21,145
Amortization	386	959	–	–	–	1,345
Total assets	338,785	147,475	22,359	–	–	508,619
Capital expenditures[(1)]	19,820	11,516	2,359	(901)	(4)	32,790
Goodwill	93,547	37,797	–	–	–	131,344

(1) Excludes business acquisitions

(Tabular amounts in thousands, except per unit and unit amounts)

14. Related Party Transactions

All related party transactions are provided in the normal course of business under the same terms and conditions as transactions with unrelated companies except for a $0.5 million loan to MacKenzie Valley Logistics Inc. and Beaufort Logistics Inc., which was non interest bearing.

Nature of transaction	Nature of relationship	Amount of the transaction 2006	2005
Revenue:			
Transportation services	a,b,c	**$ 1,062**	$ 7,262
Management fees	a	**–**	494
Other revenue	a,b,c	**49**	153
Sale of property, plant and equipment	a, c	**1,374**	68
		$ 2,485	$ 7,977
Expenses:			
Transportation services	a	**$ 1,007**	$ 871
Other	a,b,c	**857**	149
Purchase of property, plant and equipment	a	**119**	13
		$ 1,983	$ 1,033
Balances as at December 31			
Accounts receivable		**$ 1,062**	$ 288
Other assets (note 6)		**1,207**	10,800
Accounts payable		**86**	–

Nature of relationship:

a) Related by equity investment:

	Equity ownership
Beaufort Oilfield Support Services Ltd. (until May 31, 2006)	49%
Mackenzie Delta Integrated Oilfield Services Ltd. (until May 31, 2006)	39%
Payne Transportation Inc. (until June 14, 2005)	45%
Pe Ben USA Inc.	50%

b) Related by common officer or director:
Producers Oilfield Services Inc. (until May 31, 2005)
Horizon North Logistics Inc.
Cordy Oilfield Services Inc.

c) Private companies owned or controlled by an officer or director.

15. Financial Instruments

(a) Fair values

The carrying values of cash and cash equivalents, bank indebtedness, accounts receivable, income taxes recoverable, distributions payable, accounts payable and accrued liabilities approximate their fair value due to their short terms to maturity. The fair value of investments and other assets included in the consolidated balance sheet do not materially differ from their carrying values. The fair value of the bank facility approximates its carrying value as it bears interest at floating rates. The carrying value of the private placement debt approximates the fair value as interest rates approximate current rates (see note 7).

(b) Credit risk

The Fund hauls a wide variety of freight for a broad customer base which spans numerous industries. Longer-term contracts are with large, well established customers. During 2006 no customer accounted for more than 10 percent of the Fund's revenue.

(c) Foreign exchange rate fluctuation

The Fund issued US $150.0 million in Senior Guaranteed Unsecured Notes which exposes the Fund to foreign currency fluctuations. The Fund also has US activity in its operations which would partially offset the exposure.

(d) Interest rate risk

The Fund manages its interest rate risk through a combination of fixed and floating rate borrowings.

At December 31, 2006 the bank facility was financed in floating rate terms (see note 7).

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

Murray K. Mullen
Chairman, Chief Executive Officer and Director

Alan D. Archibald [(1), (2)]
Director

Greg Bay [(1), (2)]
Director

Dennis Hoffman, CA [(1), (2)]
Director

Stephen H. Lockwood, Q.C.
President, Co-Chief Executive Officer and Director

Ric Peterson
Director

Pat Powell
Director

Bruce W. Simpson [(1), (2)]
Director

David E. Olson, CA
Vice President, Finance and Chief Financial Officer

Bruce W. Mullen
Senior Vice President

Roberta A. Wheatcroft
Corporate Secretary

1 *Member of the Audit Committee*

2 *Member of the Compensation, Nomination and Corporate Governance Committee*

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LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

STOCK EXCHANGE

Toronto Stock Exchange
Trading Symbol: MTL.UN

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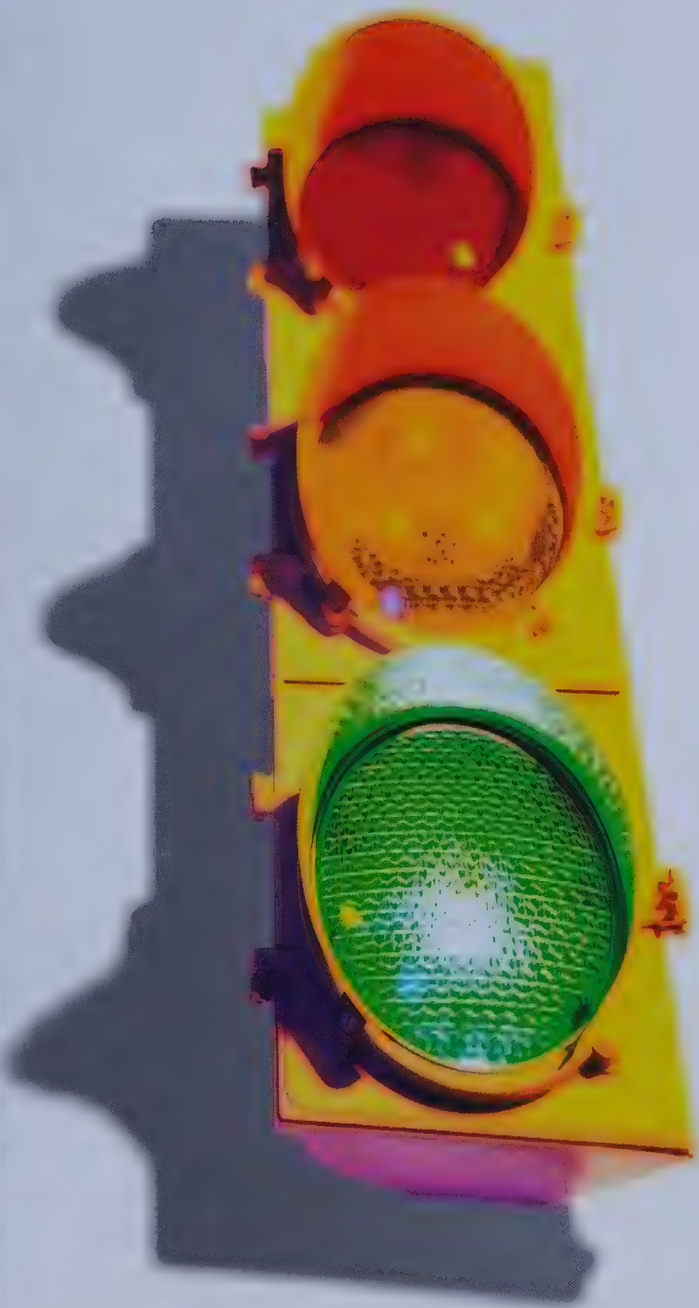


pause

evaluate

proceed

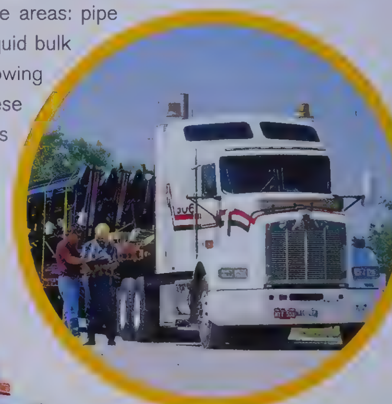
Mullen Group
INCOME FUND

2006 Business Review

Contents

Acquisitions Bolster Growth

Mullen acquired 10 companies in 2006, including the $1 billion takeover of Producers Oilfield Services Inc. The new business units consolidated the Fund's leading market position in the areas of rig moving, specialized heavy hauling, pumping and dewatering services, and trucking services. More significantly, the Fund acquired businesses with market leadership in three new service areas: pipe hauling and storage; drilling mud hauling, liquid bulk storage and warehousing; and in the fast growing intermodal transportation service offering. These acquisitions are expected to drive Mullen's growth in 2007 and beyond.



Chairman's Letter

A time to take stock

Two thousand six was a most interesting and challenging year. We generated the best financial and operating results of our history on one hand. On the other, our unit price declined by 43 percent, a disappointment to our investors and all of us at Mullen. The optimistic view of the energy sector and of Mullen held by investors in the first half of the year had largely dissipated by year end.

We know it will be at least a year before we see a recovery in natural gas prices, one of the principal drivers of our business, and we see a return to more robust drilling activity levels. But one thing is clear. Our well diversified business model works extremely effectively as evidenced by our past performances. In 2006 revenues were $1.0 billion, a 69.6 percent increase over the prior year. Earnings grew by 83 percent to $128.1 million – a record. Earnings per unit were 23 percent higher at $1.86 per unit. We distributed $124.0 million cash to our investors, along with a pro-rata share in Horizon North Logistics Inc.

As the cover of our annual report reflects, this is a time to pause and take stock in the strength of our business model, and the commitment of our people. It is a time to reflect on where we are in the natural gas price cycle and a time for Mullen to observe how we can best ready ourselves for the next green light. The current pause, I am confident, is only temporary.

The reality is that 2006 must be reviewed and analyzed from two completely different perspectives. For the better part of the year the underlying factors that support our customers and our business were extremely positive. The demand for our services was stronger than the prior year; our business units continued to perform very well; market conditions were positive and we acquired a number of quality businesses. The value of our trust units reached a record high of $37.75 on May 12, 2006. Everything was just fine, thank you.

Murray K. Mullen,
Chairman of the Board
and Chief Executive Officer

Drilling Slowdown Expected, But Distribution Looks Solid

Oil and natural gas drilling is an integral yet highly cyclical component of the energy industry and currently represents approximately one-third of Mullen's consolidated revenues.

We are of the opinion that the oil and gas industry in western Canada is experiencing a temporary slow down and that drilling activity will rebound again, once natural gas prices stabilize, the issues surrounding income trusts are clarified and the capital markets look at oil and natural gas producers from a more optimistic viewpoint. From our perspective – when, not if, this happens – Mullen will be well positioned to return to peak earnings and our investors should benefit. Furthermore, keep in mind that the majority of our business units continue to generate solid results which should allow the Fund to maintain the $1.80 per trust unit cash distribution to unitholders in 2007.

Key Indicators of our

$1.0 Billion

Revenue

The 70% gain in revenues in 2006 is a reflection of the Fund's aggressive growth strategy.

$128.1 Million

Net Income

Net income gained 83% allowing the Fund to raise cash distributions to unitholders in 2006.

As the year progressed there were concerns about how the steep drop in natural gas pricing and excess natural gas storage levels might lead to a reduction in natural gas drilling levels. These concerns spooked investors in the energy sector, resulting in a widespread and rather precipitous decline in shareholder values. Mullen was no exception. By late October the value of our trust units fell to the $23 range. In short, those months were absolutely painful.

Energy Cycles

The only explanation I can offer is that the oil and natural gas markets are subject to extreme volatility due to the cyclical nature of the industry. Since a significant portion of Mullen's business is directly related to the energy sector we simply cannot avoid these cycles. But as long-term investors in our business and the energy sector, my family and I can tell you that we have experienced this situation before and are confident of the outcome. We will emerge from this slow period, as we have from other similar times, a bigger, stronger and better company.

In fact, the last significant cyclical low in the energy sector was 10 years ago, when the price of crude oil collapsed. That too, was temporary, with the downturn affecting producers and service providers alike. In time, however, supply and demand adjustments ensured that both sides were back in balance leading to higher prices.

With the benefit of hindsight I believe that the current situation looks very similar to that of the 1990s. The only real difference is that this time it is the natural gas markets that are the primary cause of the negativity encompassing the industry and service companies like Mullen. And like the previous down-cycles, I expect that the price of natural gas will recover; cash flows will improve; the capital markets will once again look at the sector as a viable investment opportunity; drilling activity will rebound and our business units, which are leveraged to the drilling cycle – currently representing approximately one-third of our annual revenues – will generate higher revenues and improved profitability.

The only question is one of timing. We could see the rebound as early as 2008 or perhaps as late as 2009, with the most significant and unpredictable factor being weather. The other major variables that impact natural gas pricing can be quantified. We know, for example, that the underlying demand for natural gas will rise over time. We also know that the decline curve of producing wells is very steep. Industry data indicates that the average decline rate on a producing well is above 30 percent. This means production

performance in 2006

14.6%

Return on Equity

Management remains focused on achieving higher returns on unitholders' equity.

0.24:1

Debt:Equity Ratio

Debt-to-equity was marginally higher in 2006, reflecting eight acquisitions. Maintaining a strong balance sheet allows the Fund to pursue new opportunities.

levels off very quickly and declines rapidly thereafter. The only way to maintain overall production in the Basin is to drill more wells.

The wild card affecting natural gas prices is weather. Mild winters, which we have had for the past two years, reduce the need for heating from November to April, resulting in lower demand for natural gas. This, in turn, causes natural gas prices to drop, translating into lower drilling levels. Once drilling slows, production starts to decline, which ultimately brings about a balance in natural gas production; storage levels adjust, leading to a new market price for natural gas. But one cannot predict with any certainty the exact timing of when this will occur. My instincts tell me that sometime over the next two years we will return to the up part of the cycle again. Ironically, the cyclical nature of the energy markets can be good for our business. Here's why.

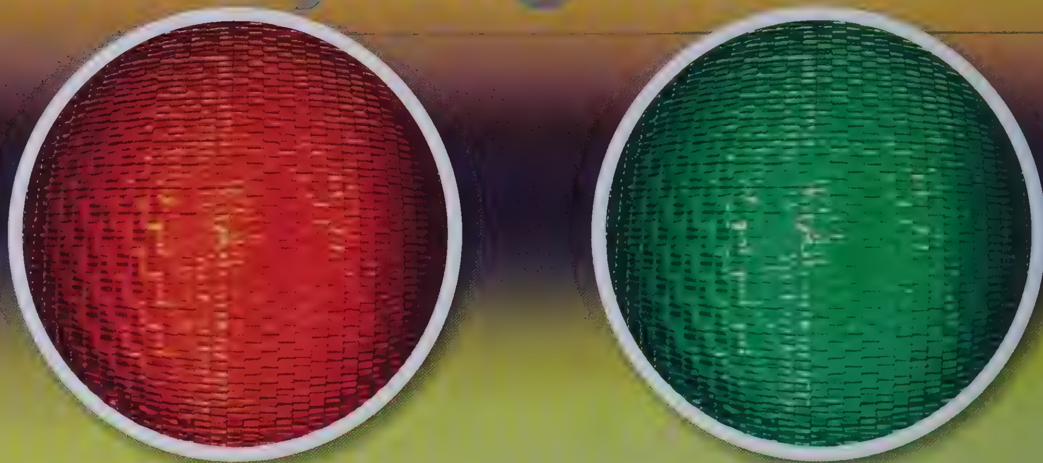
During periods of slow activity we actually can improve our business, ultimately allowing Mullen to provide customers with the highest level of service and our employees with a quality and safe work environment. If we worked flat out at all times we would have no time to resolve the inefficiencies that creep into our business. This is a message that our long-term loyal investors and stakeholders have heard me deliver over the years. This time is no different, except for one factor.

Proposed Tax Legislation

On October 31, 2006 the minority Conservative Government of Canada announced significant changes to the Income Tax Act relating to income trusts. Without debate and consultation with all interest groups, the Prime Minister, Minister of Finance, and a few selected confidants, who have yet to be identified, made the decision that will ultimately see the majority of income trusts change their structure. Unfortunately for investors in income trusts, the announcement destroyed more than $20 billion of capital wealth. At Mullen we saw our market capitalization erode by hundreds of millions of dollars.

Obviously, we were caught off guard by this move. We had been an income trust for only one year when we were blindsided by Prime Minister Harper, particularly since he ran for election on a platform of maintaining the income trust structure. Although the proposed legislation provides current income trusts with a four year window before being taxed as an income trust structure, the fact remains that our unit price, market capitalization and ability to grow has been hampered.

Industry Signals



Drilling Activity

Overall drilling activity in western Canada will be slower in 2007 due to a drop in natural gas drilling. Activity will eventually rebound as natural gas prices strengthen.

Production Activity

We have four business units that service producing oil wells. We expect this sector of the energy industry to remain strong in 2007.

At the time of this writing we are awaiting to see the final rules of the legislation. Your Board will then undertake a full review of all options open to Mullen and determine the best path forward for our investors. For now, we have no plans to alter our current structure or to change our distribution policy. In fact, given the current market condition and outlook, accompanied by our strong balance sheet position, we feel that our business model can support the $1.80 distribution, which equates to a total cash payout to our investors of $150 million in 2007, as well as funding net capital additions of $35 million. This is because the Mullen business model is diversified and not dependent upon any single part of the economy.

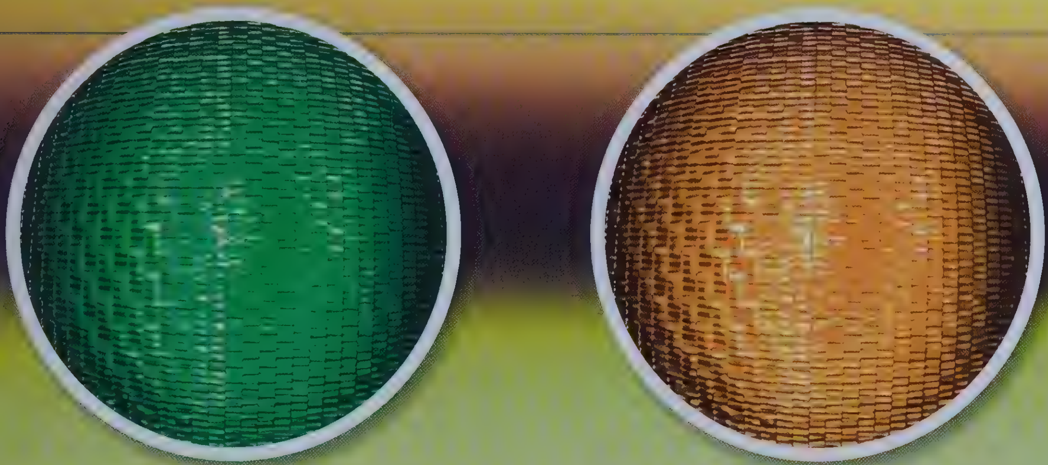
A Diversified Business Model

Earlier I spoke about the challenges facing those business units that are leveraged to drilling activity in western Canada for 2007. But in the remaining two-thirds of our business we see growth and attractive opportunities. Roughly one-third of our annual revenue is generated from business related to the investment in long-term capital projects, such as the Canadian oilsands, as well as fluid hauling and production services. There are still billions of dollars to be spent and invested in Alberta on these now well-known assets and we are well positioned to serve these opportunities.

In addition, a very stable part of our business related to trucking and logistics services, represents the remaining one-third of our revenues. The North American economy may not be booming at this time, but it appears strong enough to support our eight business units in this segment of our organization.

Final Thoughts

To our investors our stock price is the ultimate scorecard of our business, the market and of the senior executive team. In 2005 it was easy to speak about our past successes and the record stock valuations we achieved. Today is much different. Our investors have seen a significant decline in the value of their Mullen Group Income Fund investment. While I remain of the opinion that the decisions made by myself as leader, our executive team and the Board will prove to be beneficial to our investors, I admit to being humbled by what has happened to our stock price. Employees, owners, new investors and long-time believers in the Mullen investment story have seen their investment in the Mullen Group Income Fund devalue significantly in 2006 – and I share in your pain as an investor.



Spending on Infrastructure

The blistering pace of oilsands development is a natural fit for Mullen's specialized services.

Transportation/Logistics

Acquisition of the Kleysen Group, a leader in intermodel transportation, is boosting performance in Mullen's Trucking/Logistics segment. The overall economy, however, is not as robust as previous years.

Strong 2006 Performance

As leader, however, I must focus on the future. Some of the events that occurred in 2006 were beyond our control and are just part of investing. On the other hand, there are things we can control – our performance, for example. Our strength is operating quality-driven, profit-focused and safe businesses. In 2006, Mullen invested $1.2 billion in the acquisition of 10 new businesses, three of which were acquired as part of the Producers Oilfield Services transaction. These included the Formula Powell Group, Swanberg Bros. Trucking Ltd. and Neil Withers Trucking Ltd.

These acquisitions drove our revenues to $1 billion and EBITDA to $200 million, both of which were records for Mullen. While I am confident we acquired good companies, in 2007 we will make any changes necessary to ensure that these companies produce great results in the two areas we consider the hallmark of our success: superior profitability and excellence in safety. It will take some time and some restructuring, but when we are finished these good companies will generate the types of returns our shareholders have come to expect.

The expected slowdown in 2007 will allow me and the rest of the senior executive team the time and the opportunity to work with our new business units to achieve best-in-class status as well as to keep a keen eye out for new acquisitions. Although we expect valuations to be much more reasonable, we feel no compelling reason to get too aggressive yet. Of course, a lot can and probably will change in 2007.

Acknowledgements

I extend my sincere thanks to each of our 5,000 plus employees and owner-operators. Your professionalism and commitment to our organization – to being the best you can be – is what makes my job so satisfying and rewarding. High expectations have been set of you, yet you continue to surpass them and achieve goals that I could not have thought possible. A new year is upon us and I sense that everyone is energized to make the very most of it we can – setting the foundation for future successes.

On behalf of your Board of Directors,

Murray K. Mullen
Chairman of the Board and Chief Executive Officer
March 6, 2007

Face to Face with Stephen Lockwood

President and Co-Chief Executive Officer

Q: During 2006 Mullen completed eight acquisitions. Why were so many acquisitions pursued?

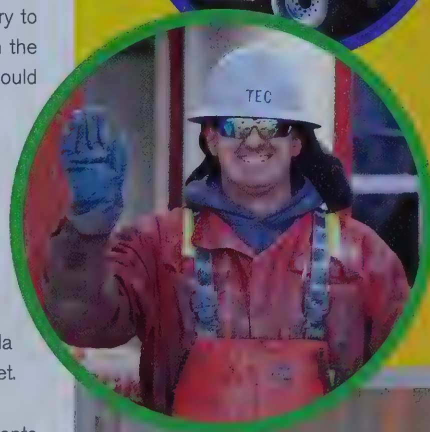
Q: Why did Mullen complete the business combination with Producers Oilfield Services Inc., which substantially increased the size of Mullen and its exposure to drilling activity in western Canada?

Q: Please explain how your competitive position and growth in the future could benefit from adding the three businesses through the Producers' acquisition, and how they fit with the existing Mullen businesses.

Q: Please explain the rationale for each of the other acquisitions completed in 2006.

A: Mullen's strategy has always included growth through acquisitions. In 2006 we were presented with a large number of opportunities. We determined that each of the eight acquisitions we completed would enhance our overall business and create value for our unitholders.

A: The opportunity to do a transaction with Producers Oilfield Services presented itself at a time when we felt the oil and natural gas sector was a great part of the economy in which to make investments. Producers provided Mullen with three great oilfield services businesses – Formula Powell, Swanberg Bros. Trucking and Withers. All three of these businesses are driven by oil and natural gas drilling activity, which was attractive to us. These businesses were being operated under a business model very complementary to our own. In addition, from a strategic perspective we believed that if we passed on the Producers opportunity a competitor of ours would likely acquire Producers. This would adversely impact our competitive position and growth potential in the future.



A: Formula Powell was the largest of Producers' businesses. It has four distinct service offerings: transportation, handling and storage of drilling mud products; the transportation and storage of fluids; the hauling of service rigs and general oilfield hauling; and the transportation, handling and rental of mats. All of these businesses were new service offerings for Mullen. Formula Powell is a dominant player in the transportation, handling and storage of mud products. If we had not acquired Formula Powell we would have been precluded from achieving a meaningful share of this market.

Swanberg Bros. Trucking provides rig hauling services, which enhances and complements the service provided by Mullen Oilfield Services L.P. We did not want this business falling into the hands of a competitor. Withers provides transportation, handling and storage of tubulars, which is similar and complementary to the services provided by Pe Ben Oilfield Services L.P., a company we acquired in early 2006.

In sum, the acquisitions accomplish a number of things: they bring Mullen into new service offerings, they enhance our market share and geographical reach in services we already provide, they strengthen our position in relation to our competitors, and they provide overall business growth.

A: When I last reported to our unitholders in April 2006 we had just completed our acquisition of Pe Ben Oilfield Services Ltd., Spearing Service Ltd., Burnell Contractors Ltd. and C. Steen Trucking Ltd. Mullen increased its exposure to oilfield services through the Pe Ben Oilfield acquisition, because it provided Mullen with a new oilfield services business – the transportation, handling and storage of tubulars. The Spearing Service acquisition geographically expanded Mullen's presence in the crude oil, produced water and fluid hauling business in southern Saskatchewan. And the acquisition of Burnell Contractors provided specialized heavy haul service, complementing the services provided by Premay Equipment L.P. *(continued...)*

"We enter 2007 with a strong and energetic leadership team ready to meet the challenges that lie ahead..."

(continued...)

The C. Steen Trucking acquisition allowed us to enhance the operations of Payne Transportation L.P., increasing its exposure to the robust Alberta economy through the addition of a strong flat-deck carrier business, with terminals in Edmonton, AB and Houston, TX.

We acquired the Kleysen Group of Companies to expand, enhance and diversify our Trucking/Logistics segment. Kleysen is a diversified transportation and logistics company offering four integrated services: bulk transportation, which is complementary to Cascade Carriers L.P.; deck transportation and industrial services, which are complementary to many of our other business units; and multi-commodity transload and intermodal transportation services, which is a new service offering and a future growth area for our Trucking/Logistics segment.

The acquisition of Canadian Dewatering Ltd., with its business of providing contract dewatering services and the rental and sale of pumps and support equipment in British Columbia, was highly complementary to our Alberta-based Northern Underwater Systems L.P. business. These businesses were such a good fit that we combined their operations in January 2007 under the name Canadian Dewatering L.P. Through the Brady Trucking acquisition we further expanded the geographic reach of our crude oil and fluid hauling business to southeastern Saskatchewan.

Q: Why did Mullen raise approximately $300 million of debt through a private debt financing in June 2006?

A: This long-term private debt is now an important part of our capital structure. In January 2006 we raised approximately $100 million of equity and as the year progressed we concluded it would be prudent to raise additional funds. Yet we did not want to further dilute our unitholders' position by raising additional equity. As an income trust we are constantly distributing our available cash to our unitholders. At the same time, it is important to have cash resources available to support and sustain our strategy of growth through acquisitions. The private debt financing opportunity presented itself and we concluded it was a prudent transaction to conduct, one that was in keeping with the business considerations I've outlined.

Q: What were the biggest challenges created by all the acquisitions and other transactions undertaken in 2006?

A: The eight acquisitions and two financing initiatives completed in 2006 created numerous challenges. First of all they put tremendous pressure on our head office team. Yet they were able to complete all of these transactions with great success without adding more people. This in itself was quite an accomplishment and I thank the entire team for their efforts. Second, we had 10 new business units to integrate into our organization. This raised many cultural, systems, reporting and operational issues, especially in relation to Pe Ben Oilfield Services L.P. and the three Producers businesses. I am pleased to report that most of these issues have been resolved or are well in hand. Finally, the integration of our new businesses placed a strain on our people. Although there were trying times encountered during 2006, those issues are behind us and we are ready to move through 2007 with a clear picture about everyone's role and responsibility.

Q: What initiatives at the business unit level will you be working on during 2007?

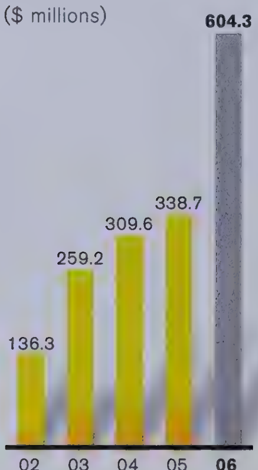
A: As we enter 2007 we have experienced a slowdown in natural gas drilling. This will give us the opportunity to work closely with our business units to improve their businesses. One initiative we are working on is ensuring that all of our business units, especially the ones we recently acquired, have the processes, systems and technology in place to be best-in-class in terms of customer service, safety and profitability. A second initiative is to encourage all of our business units to use the resources of our other business units before looking for services outside our organization. This should lead to increased utilization of our assets and improved profitability during this time of slow activity. Finally, we are taking a careful look at our numerous businesses to see if internal consolidations or restructurings make sense. Once again a slowdown in activity levels provides us with time and resources to look inward to see where improvements can be made.

Q: Do you have any final comments?

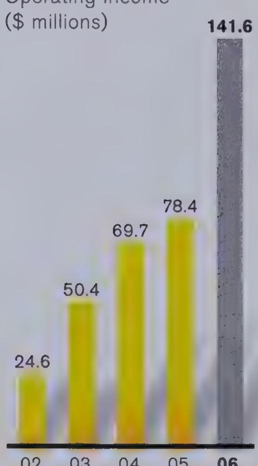
A: We enter 2007 with a strong and energetic leadership team ready to meet the challenges that lie ahead, including the current slowdown in natural gas drilling activity. This will certainly impact the one-third of our business that is driven by drilling activity in western Canada. Our focus at head office will be providing assistance to our business units so they can improve their operating efficiencies and financial performance.

Oilfield Services Segment

Oilfield Services Segment
Revenue
($ millions)



Oilfield Services Segment
Operating Income
($ millions)



The Fund's Oilfield Services segment experienced substantial growth during 2006 with the addition of eight new business units: Brady Oilfield Services, Burnell Contractors, Canadian Dewatering, Formula Powell, Pe Ben Oilfield Services, Spearing Service, Swanberg Bros. Trucking and Withers. This segment is now comprised of 16 business units which are divided into four service groups, based on the type of specialized service they provide.

The Oilfield Services segment has had steady growth since 2002, as indicated in the accompanying graphs. In 2006, the segment contributed approximately 60 percent of Mullen's revenue and approximately 70 percent of its operating income.

From a financial perspective, the Oilfield Services segment performed impressively until September, when natural gas drilling activity was curtailed. Business units that are closely aligned with natural gas drilling activity then experienced a decline in revenue and operating income, which adversely affected their 2006 financial performance.

The segment's Drilling Related Services group currently consists of Mullen Oilfield Services L.P., FSJ L.A.N.D. Transport L.P., Swanberg Bros. Trucking L.P., Formula Powell L.P., Pe Ben Oilfield Services L.P. and Withers L.P. All of the business units were negatively impacted by the slowdown in natural gas drilling activity.

Mullen Oilfield Service L.P. and FSJ L.A.N.D. Transport L.P. experienced a year-over-year decline in revenue and operating income. Swanberg Bros. Trucking L.P., Formula Powell L.P. and Withers L.P. are the three business units that joined Mullen through the acquisition of Producers Oilfield Services Inc. on June 1, 2006. All three performed below our expectations in terms of revenue, operating income and operating margin, as a direct result of the slowdown in natural gas drilling activity.

Early in 2006 Mullen acquired Pe Ben Oilfield Services L.P. Unfortunately, the slowdown in natural gas drilling activity and various integration issues adversely impacted the performance of this business unit and it did not meet expectations.

We are confident that the longstanding Mullen business units are well placed to weather the current slowdown in natural gas drilling activity. The challenge for 2007 will be to ensure that the newly acquired business units have the processes in place to control their costs.

The business units in our Drilling Services group had mixed results during 2006. OK Drilling Services L.P. performed well, achieving year-over-year increases in revenue, operating income and operating margins. The operations of Cora Lynn Drilling and Schmidt Drilling were combined during 2006 to form Treo Drilling Services L.P. Treo experienced another tough year in 2006 as a result of weather, personnel and pricing issues.

The bright side in the Oilfield Services segment came from the Production Services group and the Specialized Services group. In the Production Services group E-Can Oilfield Services L.P. experienced year-over-year increases in revenue, operating income and operating margin. Heavy Crude Hauling L.P.'s revenue continued to be negatively impacted by pricing issues with certain of its customers but the business unit generated a reasonable operating margin. One of Mullen's corporate goals for 2006 was to increase our exposure to heavy oil production and this was achieved through the acquisition of Spearing Service L.P. in February and of Brady Oilfield Services L.P. in November. The financial performance of both these new business units exceeded our expectations and we are excited about their prospects in 2007.

The financial performance of the Specialized Services group also exceeded expectations during 2006. The significant investments being made in energy and other infrastructure projects helped Premay Equipment L.P., a leader in providing heavy haul services, to deliver a strong financial performance. Our acquisition of Burnell Contractors L.P. in February was very timely and this business unit also exceeded our expectations during the remainder of the year.

On the pipeline front we started to see a revival of the large diameter pipeline sector as a number of these projects moved from the planning phase into construction. This revival was beneficial for Premay Pipeline Hauling L.P., our sole business unit dedicated to serving the pipeline sector. As we look ahead through 2007, 2008 and 2009, there are many large diameter pipeline projects being planned which should keep Premay Pipeline Hauling L.P. busy.

The Northern Underwater Systems L.P. business unit, which is also part of the Specialized Services group, was enhanced in July 2006 with the acquisition of Canadian Dewatering L.P. We have combined these businesses in order to strengthen our pump sales and rental operations, our dewatering capabilities and our presence in Alberta's oilsands. There are numerous existing oilsands projects as well as many in various stages of development. They will all utilize a significant amount of water in the processing of bitumen into marketable crude oil. This is expected to provide our Canadian Dewatering L.P. business unit with many growth opportunities in the future.

Highlights:

- Strategic acquisition of Producers Oilfield Services Inc. increased the Fund's exposure to drilling activity in western Canada.
- Expanded production services with the acquisition of Spearing Service L.P. and Brady Oilfield Services L.P.
- Established a strong presence in the tubular handling business with the acquisition of Pe Ben Oilfield Services L.P. and Withers L.P.
- Enhanced Mullen's presence in oilsands development with the acquisition of Canadian Dewatering L.P.
- Monetized the Fund's holdings in its northern assets by the spin-out of Horizon North Logistics Inc. to unitholders.
- Strong demand continued for segment services related to infrastructure projects, production services and oilsands development.
- Continued strong financial performance, including year-over-year increase in revenue of approximately $265.6 million, or 78 percent, and in operating income of approximately $63.2 million, or 81 percent.

Trucking/Logistics Segment

In 2006, Mullen expanded its Trucking/Logistics segment with the acquisition of Kleysen Group of Companies and C. Steen Trucking. This segment is now comprised of eight business units. During 2006 this segment contributed approximately 40 percent of Mullen's revenue and 30 percent of its operating income.

The Kleysen Group of Companies acquisition was a pleasant surprise, exceeding our expectations for revenue, operating income and operating margin. This acquisition was also important for Mullen in that it provided immediate expertise and equipment in the multi-commodity transload and intermodal transportation businesses and expanded our dry bulk transportation services into Saskatchewan and Manitoba. We believe that our ability to provide Kleysen Group L.P. with additional capital will allow Kleysen to expand its transload and intermodal businesses, resulting in continued improvement to its operating performance as we move through 2007.

The robust business climate in western Canada created strong demand for our trucking/logistics services, which in turn generated highly positive returns for most of our western-based businesses. The eastern marketplace continued to be a difficult operating environment and this adversely affected the financial results of our sole eastern-based carrier, Mill Creek Motor Freight L.P.

Highlights:

- Acquisition of Kleysen Group of Companies provided the Fund with immediate expertise in the intermodal and transload businesses.
- Added 262 tractors and 677 trailers to the Trucking/Logistics segment fleet.
- Continued strong demand for services generated a year-over-year improvement in margins.
- Year-over-year increase in revenue of $144.0 million or 56 percent and in operating income of $22.0 million or 57 percent.
- Continued economic growth in western Canada and capital spending associated with oilsands development, new pipelines, construction and mining activity.

Mullen Trucking L.P. and Grimshaw Trucking L.P. both performed well in 2006, generating year-over-year increases in revenue, operating income and margin. This was attributable to the strong Alberta economy, especially in the construction, mining, oilsands and energy sectors, and to the business units' disciplined approach to pricing and costs. Despite the slowdown in natural gas drilling during the fourth quarter of 2006, we expect Mullen Trucking L.P. and Grimshaw Trucking L.P. to deliver strong operating and financial performance in 2007.

Cascade Carriers L.P. marginally increased its revenue in 2006, but this did not generate a proportionate increase in operating income due to the escalating cost environment in which Cascade Carriers L.P. operates. Entering 2007 Cascade Carriers L.P. is concentrating on the cost side of its business, especially in light of the slowdown in natural gas drilling activity, which should have a marginal effect on its financial performance.

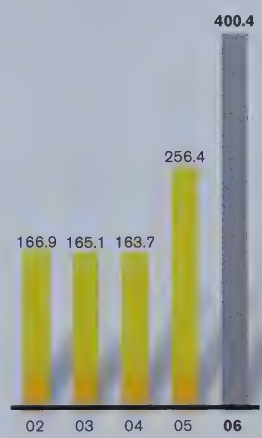
The Changing Face of Trucking

Mullen's Trucking/Logistics segment is evolving from pure truck transportation to an intermodal style of transport that combines trucks, rail and the logistics of moving goods from one point to another. For instance, Kleysen Group moves dry and heated, full-container loads across Canada, and between Canada and the continental United States. Kleysen's services encompass transportation, as well as warehousing, storage, inventory management and distribution services for construction and agricultural equipment, oilfield supplies and equipment, pipe, grain, fertilizers and other bulk products.

Mill Creek Motor Freight L.P. did an admirable job in a difficult operating environment during 2006. It once again experienced a slight decline in both revenue and operating income but its disciplined approach to business allowed it to maintain its operating margin. We do not believe that the operating environment in eastern Canada will improve during 2007.

For Tenold Transportation L.P. and Payne Transportation L.P., 2006 represented their first full year in the Mullen Group. Tenold Transportation L.P. exceeded our expectations in revenue, operating income and operating margin. We are optimistic that it will continue to perform at its current level through 2007. Payne Transportation L.P., on the other hand, was unable to meet our expectations. Its marketplace is central Canada and the U.S. Midwest, both of which are highly competitive areas. To assist Payne Transportation L.P. in 2007 we have given it responsibility for C. Steen Trucking. We are optimistic that this change will open new opportunities for Payne Transportation L.P. and lead to stronger financial performance in 2007.

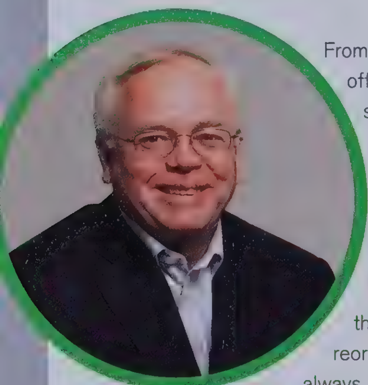
Trucking/Logistics Segment Revenue ($ millions)



Trucking/Logistics Segment Operating Income ($ millions)

Finance and Accounting

2006 was an extremely hectic time for the Finance and Accounting Department as the Fund started the year by completing an equity issue for $96.5 million. This was followed by a series of eight acquisitions, for a total consideration of $1.2 billion. The Fund also renegotiated its bank term facility and completed a private debt placement of approximately $300 million. As well, the Fund in conjunction with the Producers' acquisition, spun out its northern-based investments into Horizon North Logistics Inc.



David E. Olson,
Vice President, Finance and Chief Financial Officer

From a staff perspective the head office accounting department was strengthened with the addition of two people, bringing the department to a total staff of seven. In 2006, there was a substantial increase in the department's workload as our accounting team dealt with the acquisitions and internal reorganizations. As well, there is always extra ongoing accounting work when an organization's revenue increases by 70 percent and the number of business units increases from 16 at the end of 2005 to 24 at the end of 2006. I extend sincere thanks to our team for their hard work. Their skills and commitment enabled us to deal successfully with the extra workload.

From a financial perspective the Fund, mainly due to the acquisitions, generated record revenue, net income and funds from operations, while still maintaining a conservative 0.24:1 debt-to-equity ratio.

The Fund earned $1.86 per unit and generated $195.3 million of funds from operations, or $2.84 per unit. The Fund also increased its monthly distribution to unitholders from an annualized $1.62 per unit in 2005 to $1.80 per unit in 2006. Total distributions declared for 2006 amounted to $124.0 million. In addition, the Fund distributed to its unitholders shares in Horizon North Logistics, as part of the spin-out of the northern-based assets.

The Fund was negatively affected by a slowdown in natural gas drilling activity, which started to decline in September and continued through the fourth quarter. The Fund's unitholders were also adversely affected by the Federal Government's October 31, 2006 announcement on a proposed new tax structure for trusts. Following a four-year tax holiday, the proposed tax structure would equate trusts to corporations. Trusts would pay income tax, which would result in less cash available to distribute to unitholders, who would see their yield reduced. The proposal has had a negative effect on the unit price. If the legislation is made law, the Fund will review its options.

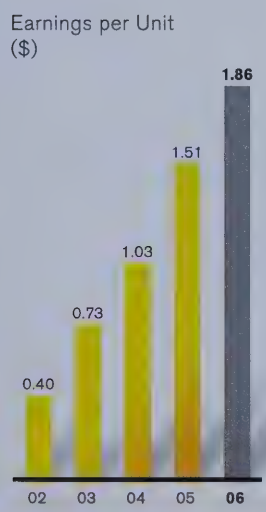
In 2007, the Accounting Department intends to focus on streamlining the corporate structure, implementing any practical internal control improvements and to work on value-added projects to help our operating businesses be more effective and ready to benefit from the next uptick in drilling activity.

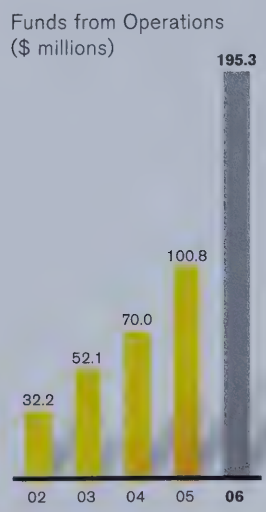
Consolidated Revenue
($ millions)

Operating Income
($ millions)

Net Income
($ millions)

Years ended December 31 ($ millions except per unit amounts and debt-to-equity ratio)	2006	2005	% Change
Revenue	$ 1,003.3	$ 591.7	69.6%
Direct operating expenses	$ 682.1	$ 411.9	65.6%
Selling and administrative expenses	$ 119.1	$ 67.1	77.5%
Operating income	$ 202.1	$ 112.7	79.3%
Net income	$ 128.1	$ 70.0	83.0%
Earnings per unit	$ 1.86	$ 1.51	23.2%
Funds from operations	$ 195.3	$ 100.8	93.8%
Funds from operations per unit	$ 2.84	$ 2.18	30.3%
Distributions declared	$ 124.0	$ 38.2	224.6%
Distributions per unit	$ 1.80	$ 0.81	122.2%
Debt-to-equity ratio	0.24:1	0.22:1	





Seven Year Selected Financial Data

Years ended December 31 ($ thousands, unaudited)	2006	2005	2004	(restated)* 2003	(restated)* 2002	2001	(restated)** 2000
Revenue	**$ 1,003,287**	$ 591,728	$ 470,860	$ 421,504	$ 302,512	$ 349,582	$ 322,330
Expenses							
Direct operating expenses	**682,132**	411,893	328,853	305,060	224,729	246,534	230,090
Selling and administrative expenses	**119,090**	67,118	49,932	45,294	35,396	37,794	34,788
	202,065	112,717	92,075	71,150	42,387	65,254	57,452
Depreciation and amortization	**52,635**	22,490	19,871	17,819	13,975	12,937	11,362
Interest on long-term debt	**13,410**	1,853	1,865	1,504	36	158	460
Other interest	**202**	66	157	386	226	44	44
Unrealized foreign exchange loss	**7,500**	–	–	–	–	–	–
Loss (gain) on sale of property, plant and equipment	**(1,256)**	(214)	749	(92)	(255)	(325)	(508)
Gain on sale of investments	**(115)**	–	–	(304)	–	–	–
Income before income taxes, earnings from equity investments and amortization of goodwill	**129,689**	88,522	69,433	51,837	28,405	52,440	46,094
Provision for income taxes							
Current	**(4,311)**	14,017	22,041	18,229	10,906	19,624	19,179
Future	**6,866**	4,933	1,735	1,520	773	745	(2,554)
	2,555	18,950	23,776	19,749	11,679	20,369	16,625
Income before earnings from equity investments and amortization of goodwill	**127,134**	69,572	45,657	32,088	16,726	32,071	29,469
Earnings from equity investment	**998**	391	820	332	945	479	42
Net income before amortization of goodwill	**128,132**	69,963	46,477	32,420	17,671	32,550	29,511
Amortization of goodwill	**–**	–	–	–	–	2,040	1,399
Net income from continuing operations	**128,132**	69,963	46,477	32,420	17,671	30,510	28,112
Net income from discontinued operations	**–**	–	–	–	–	169	2,659
Net income	**$ 128,132**	$ 69,963	$ 46,477	$ 32,420	$ 17,671	$ 30,679	$ 30,771

*2002 & 2003 figures have been restated to account for stock–based compensation.

**2000 figures have been restated to account for discontinued operations.

(unaudited)	2006	2005	2004	(restated)* 2003	(restated)* 2002	2001	(restated)** 2000
Ratios – Operating							
Return on equity	**14.6%**	23.5%	18.9%	15.5%	9.5%	18.3%	21.1%
Gross margin – percent of revenue	**32.0%**	30.4%	30.2%	27.6%	25.7%	29.5%	28.6%
Selling and administrative expenses – percent of revenue	**11.9%**	11.3%	10.6%	10.7%	11.7%	10.8%	10.8%
Operating ratio	**85.0%**	84.7%	84.8%	87.3%	90.5%	85.5%	86.0%
Payout ratio	**83.7%**	236.6%	–	–	–	–	–
Financial Position ($ thousands except acid test and debt-to-equity ratio)							
Acid test	**1.48**	1.35	1.39	1.57	1.49	2.15	1.61
Net property, plant and equipment	**$ 558,522**	$ 218,357	$ 189,436	$ 187,801	$ 149,160	$ 116,769	$ 111,615
Total assets	**$ 2,021,245**	$ 508,619	$ 400,709	$ 381,643	$ 294,532	$ 231,537	$ 228,999
Long-term debt (including current portion)	**$ 346,736**	$ 51,534	$ 39,176	$ 73,584	$ 30,506	$ 1,038	$ 4,274
Shareholders' equity	**$ 1,424,066**	$ 327,872	$ 267,975	$ 224,333	$ 194,687	$ 176,520	$ 158,535
Debt-to-equity ratio	**0.24**	0.22	0.15	0.33	0.20	0.01	0.03
Funds from operations	**$ 195,345**	$ 100,771	$ 69,967	$ 52,116	$ 32,195	$ 45,428	$ 37,769
Unit Data* **							
Funds from operations per unit	**$ 2.84**	$ 2.18	$ 1.55	$ 1.17	$ 0.73	$ 1.06	$ 0.92
Book value per unit	**$ 17.38**	$ 6.94	$ 5.93	$ 5.02	$ 4.39	$ 4.07	$ 3.77
Earnings per unit	**$ 1.86**	$ 1.51	$ 1.03	$ 0.73	$ 0.40	$ 0.71	$ 0.75
Price/earnings ratio	**10.0**	21.6	16.1	18.1	24.8	11.7	12.5
Weighted number of units outstanding (thousands)	**68,886**	46,261	45,024	44,558	43,941	42,939	41,223
Total units outstanding (thousands)	**81,490**	47,256	45,186	44,721	44,324	43,329	42,034

* 2002 & 2003 figures have been restated to account for stock-based compensation.

** 2000 figures have been restated to account for discontinued operations.

*** Unit data has been restated to reflect the exchange of Mullen Transportation Inc. shares for Mullen Group Income Fund units on a one-for-three basis.

Notes:

1 Return on equity was calculated by dividing net income by average unitholders' equity.
2 Gross margin was calculated by dividing sales less direct operating costs by sales.
3 Operating ratio was calculated by dividing the total cost before taxes, and interest as a percentage of revenue.
4 Payout ratio was calculated by dividing cash distributions declared by distributable cash.
5 Acid test ratio was calculated by dividing cash plus receivables by current liabilities.
6 Debt-to-equity ratio was calculated by dividing total debt by unitholders' equity.
7 Funds from operations was calculated as funds from operations before the effect of changes in non-cash working capital items.
8 Funds from operations per unit was calculated by dividing funds from operations by weighted average number of units outstanding.
9 Book value per unit was calculated by dividing unitholders' equity by the number of units outstanding.
10 Earnings per unit was calculated by dividing net income by the weighted average number of units outstanding.
11 Price/earnings ratio was calculated by dividing year-end closing price by earnings per unit.

Safety and Loss Prevention

The Principles of Safety

At the Mullen group of companies we have one simple goal – to Achieve Excellence in Everything We Do. It is a commitment, a shared belief of our Board of Directors, our senior executives and our business unit leaders and an aspiration that we strive to instill throughout our large and growing organization. The tenet of Achieving Excellence also holds true for safety.

Richard Maloney,
Vice President, Safety and Loss Prevention

Mullen's commitment to effective safety and loss prevention systems is deeply entrenched in our fundamental belief that effective leadership is what drives best-in-class safety performance. Our leaders meet their responsibility by demonstrating correct safety behaviours, by clearly defining the roles and responsibilities of our people, by providing needed resources, and by measuring, reviewing and continuously improving safety performance.

Performance

In 2006 Mullen once again reported better than industry performance in the areas of Lost-Time Claims (LTC) and Total Recordable Injuries (TRI). That said, and despite the good safety performance of Cascade Carriers, E-Can Oilfield Services and Premay Equipment, in 2006 Mullen did report increases in both LTC and TRI frequencies relative to our own performance in

2006 GPSA Winner – E-Can Oilfield Services L.P.
Picture (left to right)
Richard Maloney; Rob Harms, Director of Safety, E-Can Oilfield Services; Murray Mullen

2005 – this was not acceptable! The leadership teams in the business units that recorded unacceptable safety performances accounted for their performance and developed a detailed plan for improvement. In addition, each of these business units lost a significant portion of their profit share pool as a result of their performance.

Acquisitions

As you have read in this Business Review, 2006 was a watershed year for Mullen. We virtually doubled the size of our organization through the successful completion of eight acquisitions. Growth of this magnitude presented certain challenges from a safety and loss prevention perspective. Although each of the eight organizations Mullen acquired were top tier performers in their respective sectors, these organizations only started the journey, in 2006, of understanding Mullen's best-in-class standards in the areas of health, safety and the environment. We are very confident that we are moving towards having the right leadership teams in these new business units to drive superior safety performance.

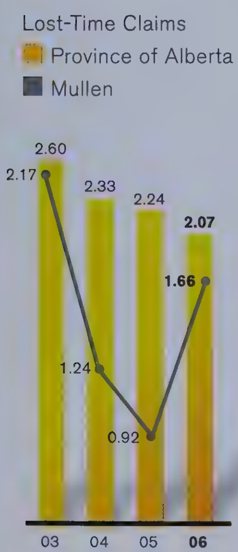
Grand Prize Safety Award (GPSA)

Since 1997, Mullen has undertaken an annual audit of the Health, Safety and Environmental Management Systems (HSEMS) of our business units to determine the winner of the Grand Prize Safety Award (GPSA). The criteria of the GPSA are developed from Mullen's Seven Key Elements of Our Safety Program and our Corporate Health, Safety and Environment Guidelines. Every year each of our business units is requested to provide details of how it is improving its HSEMS and overall safety performance. Although the GPSA is voluntary, those units that do not make a GPSA submission are conspicuous by their absence. Business units that do not make a legitimate GPSA submission are penalized from a profit sharing perspective.

The winner of the 2006 GPSA was E-Can Oilfield Services. This was the second time that E-Can won the GPSA (an accolade held by only one other business unit – Premay Equipment) and reflects the dedication and hard work of the business unit's leadership team in creating a best-in-class HSEMS. Congratulations!

Outlook

Mullen will continue its intensive focus on continuous improvement of our business units' HSEMS. In 2007 we will release the second edition of our Corporate Health, Safety and Environment Guidelines. We will also develop and release an orientation DVD which explains Mullen's safety principles. And we will enhance the GPSA audit protocol for our business units to ensure we are using best-in-class HSEMS evaluation techniques.



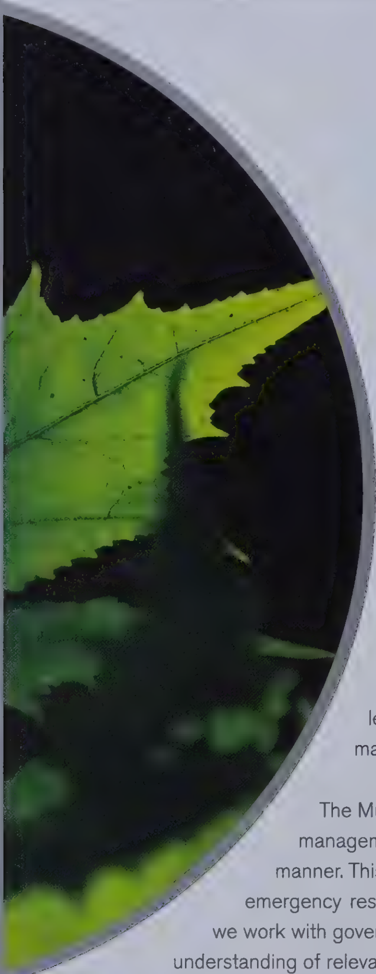
2006 Highlights/ Achievements

- GPSA winner: E-Can Oilfield Services L.P.
- Total kilometres all business units 2006: 223,299,707.
- Total man-hours all business units 2006: 11,000,000.
- Safety Stand Down Week (SSDW) – January 2006. Mullen and a number of business units participated in SSDW, a time when senior executives and management travel to the field to talk to frontline workers about safety.
- The continued participation of Mullen in the Alberta Workplace Health & Safety "Partners In Health and Safety" program; the continued participation of Mullen's Alberta-based business units in the Alberta Workplace Health & Safety Certificate of Recognition (COR) program.

Seven Key Elements of Our Safety Program

- **Recruitment**
- **Pre-employment hiring procedures**
- **Set the standards**
- **Monitor and measure performance**
- **Provide safe and reliable equipment and facilities**
- **Education and skills upgrading**
- **Discipline**

Environment



Environmental Management

The Mullen Group recognizes environmental management as among the highest of corporate priorities. We have established environmental responsibility at the board and chief executive level and integrate corporate environmental policies and practices as an essential element of management at all levels and functions of our organization.

The Mullen Group believes that by educating and training our people in the discipline of environmental management, individuals will be motivated to conduct their activities in an environmentally responsible manner. This educating and training includes the development, implementation and maintenance of effective emergency response procedures designed to minimize the consequences of emergency events. In addition, we work with government, industry groups and the public to improve and develop environmental standards and the understanding of relevant environmental issues.

Sustainable Development

In keeping with our commitment of supporting research which expands scientific knowledge and develops improved technologies that protect the environment, the Mullen Group, through its annual capital budgeting process, has initiated the phasing in of new trucks and motor equipment that meet the highest of emission standards. As well, the Mullen Group ensures optimum fleet utilization and performance through comprehensive preventative maintenance programs while maintaining the highest attention to reducing idling time, monitoring speed, and aggressively minimizing deadhead travel. Our goal is to have at least 80 percent of our rolling assets meet the highest environmental and emission standards by 2010. This goal is achievable because of our disciplined approach to allocating unitholders' money to capital expenditures that have undergone rigorous environmental standards scrutiny.

Going forward, the Mullen Group will maintain a balanced approach to sustainable development. We are committed to maximizing returns for our unitholders while remaining committed to best-in-class environmental management systems; providing superior customer service; a quality work environment for our people; and social responsibility within the communities in which we work.

Human Resources

Graduates of the 2006 Business Management Certificate Program.

87 Percent Growth in People

Take the number of people you have in your organization – double it in one year and you'll have an idea of the challenges faced by Mullen's Human Resources department. In 2006 Mullen Group grew by 87 percent to 5,350 from 2,850 people in 2005, reflecting eight corporate acquisitions. Such events bring change, which in turn can produce many different emotions. We are grateful for everyone's support and commitment throughout the Mullen Group in helping navigate this exciting, but challenging year. We hope this is the beginning of a long and rewarding relationship between yourself, your company and the Mullen Group.

In 2006 Canada's employment rate grew by 2.1 percent, which pushed down the unemployment rate to a 30 year low of 6.1 percent. At the same time, Alberta recorded its largest employment growth rate in 26 years (+6 percent or 109,000 jobs), which lowered the unemployment rate to 3.4 percent in the province, making this a very challenging market when recruiting and maintaining our workforce.

Worth noting is that the majority of our companies that were part of Mullen for the entire year experienced lower turnover in 2006. The companies experiencing higher turnover are those that underwent changes in their senior leadership, a correlation that is common during change.

Education and Training

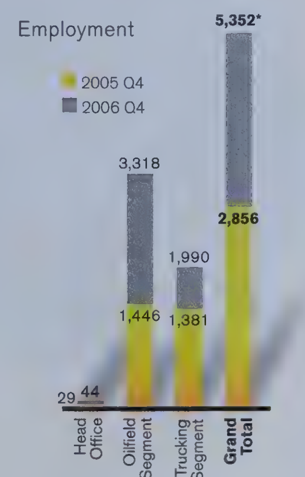
In 2006, Mullen hosted four Leadership Conferences representing 4,000 hours of training for 320 attendees from across all our companies. In addition, many of our companies hosted their own conferences in 2006 to help advance their employees. These conferences included presentations from Mullen senior executives.

Each year Mullen hosts a 160 hour program on concepts for business management at terminals located in Southern and Northern Alberta. The program is delivered by our learning partners from the Southern Alberta Institute of Technology (SAIT) to employees committed to life-long learning. Our Business Management Certificate Program is at the maximum capacity of 20 participants at both the North and South programs. We are currently expanding our South program to accommodate more employees, especially from our distant terminals. To date 226 employees have graduated from the program, with another 30 expected to graduate in June, 2007.

A total of 70,121 Education & Training hours were recorded in 2006 compared to 47,625 in 2005, an increase of 47 percent. This total includes only a partial year for our 2006 acquisitions. Discounting the acquisition companies the total hours were 54,244, which equates to 20 hours per person. Mullen's goal is 40 hours per person.

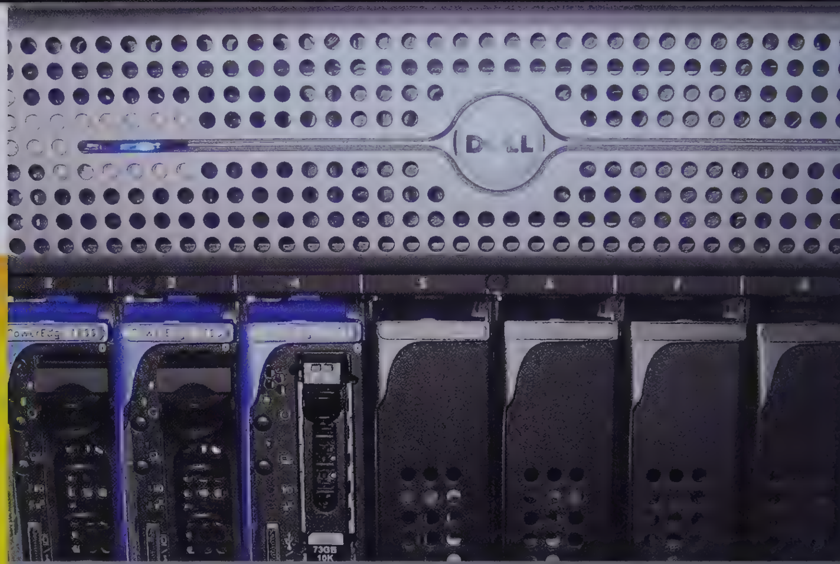
Roland and Leona Mullen Scholarship Program

To encourage children of our employees and owner-operators to continue their life-long journey of learning, Mullen grants financial assistance at the post-secondary school level. In 2006 we invested another $28,000 for a total of $144,500 since inception of the program in 1999.



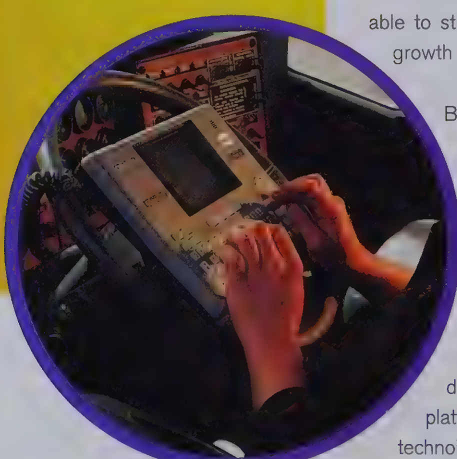
* Includes owner operators and dedicated subcontractors

Information Technology



Balancing Efficiency and Responsibility

There is a fine balance to developing a system security strategy which allows our businesses to function effectively while ensuring that those with fiduciary and system responsibilities can sleep at night. We have managed to maintain our focus on the key areas of governance, compliance, standardization and consolidation through a very challenging year in 2006. We believe we have the right strategic plan in place to achieve that balance in 2007.



Security Takes Strategy

For an organization as diverse as Mullen, security requires more than simple locks on doors. It takes strategy and diligence. With the tremendous growth experienced by Mullen in 2006, our focus on security policies and standards was paramount.

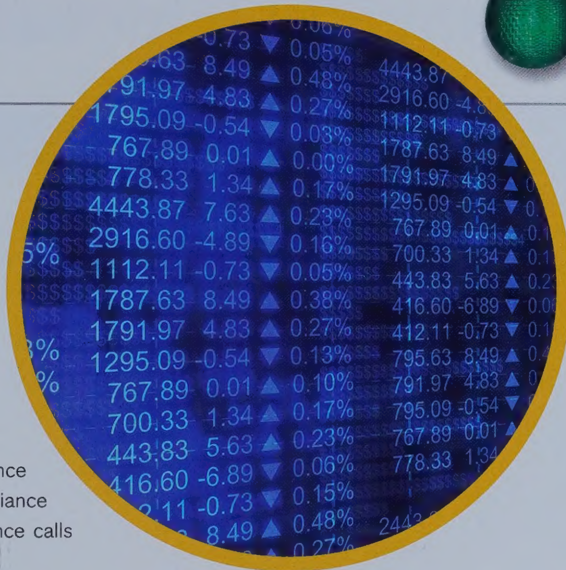
Reporting to the senior executive team enables the IT Group to be involved at the strategic level to ensure we provide the right direction and support to our business units. We were able to strengthen our team in 2006, adding high caliber individuals through internal growth opportunities, outside hiring, and the merger with Producers Oilfield Services.

Business units can plug into our centralized IT infrastructure or maintain their own decentralized systems. Either way, Mullen maintains common standards while giving business units a choice on how to manage their IT infrastructure. The standards include system access and user policies, maintaining application licensing and keeping infrastructure current.

Decentralization of companies can lead to less control. The solution lies in standardization where applicable. In 2006 Mullen negotiated agreements for two new enterprise-level application solutions, creating the opportunity for decentralized business units to migrate from legacy systems to standardized platforms supported by the IT group. This allows business units to access new technology at greatly reduced costs. At the same time, outsourcing responsibility for managing the systems enables them to focus on their core business.

Some of our 2006 acquisitions have also presented us with consolidation opportunities. Ongoing initiatives include adopting best-in-class systems, staff reallocation, eliminating hardware redundancies, telecommunications amalgamation and greater geographic diversification to support our business units.

Investor Services



At Mullen, Investor Services is committed to responding to inquiries on a timely basis, providing accurate information and ensuring compliance with corporate disclosure.

Today, investor expectations are higher than ever. Managing inbound communication, and responding quickly with quality communications to our employees, securityholders and the investment community are of utmost importance.

Securityholder communications are central to our corporate governance principles. Working closely with Corporate Services we ensure compliance on corporate disclosure through press releases, webcast/conference calls and information on the Fund's website.

The Fund's Investor Services reports directly to the Chairman of the Board and is responsible for providing services to the Board of Directors and timely management of information through the direction of the Chairman and the senior executives.

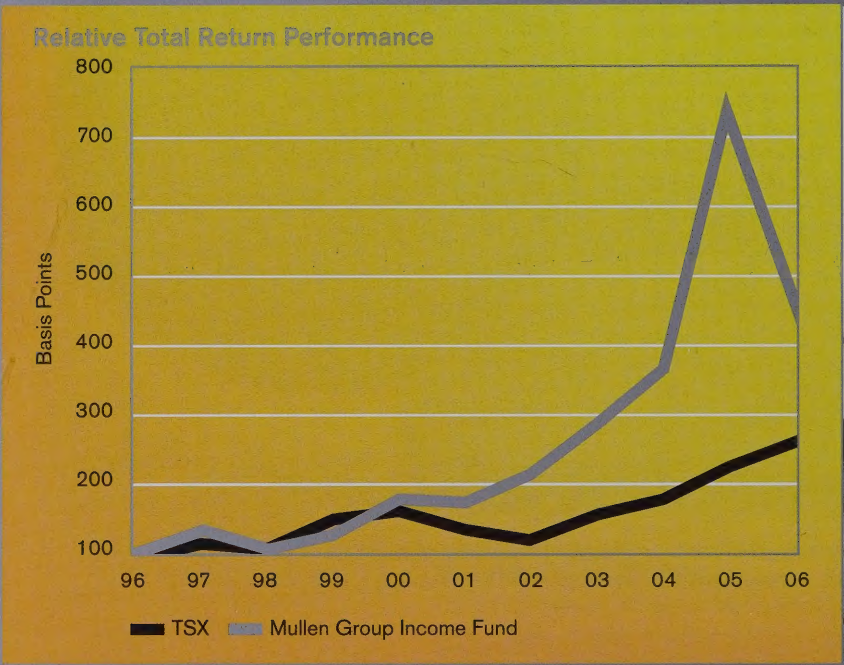
As a main contact for CIBC Mellon Trust Company, the Fund's transfer agent, we provide information to investor inquiries regarding trust unit holdings and distribution questions and ensure the investor is provided with the right contact information.

Distributions Since Inception

Record Date	Distribution/Unit	
2007 Year-to-date		
February 28, 2007	$	0.150
January 31, 2007	$	0.150
TOTAL FOR 2007	**$**	**0.300**
2006		
December 31, 2006	$	0.150
November 30, 2006	$	0.150
October 31, 2006	$	0.150
September 30, 2006	$	0.150
August 31, 2006	$	0.150
July 31, 2006	$	0.150
June 30, 2006	$	0.150
May 31, 2006	$	0.150
April 30, 2006	$	0.150
March 31, 2006	$	0.150
February 28, 2006	$	0.150
January 31, 2006	$	0.150
TOTAL FOR 2006	**$**	**1.800**
2005		
December 31, 2006	$	0.135
November 30, 2006	$	0.135
October 31, 2006	$	0.135
September 30, 2006	$	0.135
August 31, 2006	$	0.135
July 31, 2006	$	0.135
TOTAL FOR 2005	**$**	**0.810**

Total cash distributions since inception (June 2005): $2.91 per unit

Unitholder Information



Transfer Agent and Registrar

CIBC Mellon Trust Company
600, 333–7th Avenue S.W.
Calgary, Alberta T2P 4P4
Telephone: (403) 232-2400

Unitholder Services

North America: 1-800-387-0825
Outside North America:
1-416-643-5000
Website: www.cibcmellon.com

Stock Trading Activity: MTL.UN

Opening price January 3, 2006:	$ 32.65
Closing price December 29, 2006:	$ 18.69
Total number of units traded in 2006:	47,842,816

Stock Exchange

The Toronto Stock Exchange
Trading Symbol: MTL.UN

Online Information

Additional information on the Mullen Group Income Fund and its group of companies, and this 2006 Business Review, can be viewed electronically at: www.mullen-group.com.

Directors and Officers

Murray K. Mullen
Chairman, Chief Executive Officer and Director

Alan D. Archibald [1,2]
Director

Greg Bay [1,2]
Director

Dennis J. Hoffman, CA [1,2]
Director

Stephen H. Lockwood, Q.C.
President, Co-Chief Executive Officer and Director

Bruce W. Mullen
Senior Vice President

David E. Olson, CA
Vice President, Finance and Chief Financial Officer

Richard E. Peterson
Director

Patrick G. Powell
Director

Bruce W. Simpson [1,2]
Director

Roberta A. Wheatcroft
Corporate Secretary

[1] Member of the Audit Committee

[2] Member of the Compensation, Nomination and Governance Committee

Banker
The Royal Bank of Canada
Calgary, Alberta

Legal Counsel
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors
KPMG LLP
Calgary, Alberta

The annual meeting of the securityholders of Mullen Group Income Fund will be held on Tuesday, May 1, 2007 at 3:00 p.m. M.D.T. in the McMurray Room of the Calgary Petroleum Club at 319–5th Avenue S.W. Calgary, Alberta. All securityholders are encouraged to attend. Those unable to attend should sign and return the proxy form as soon as possible.

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INCOME FUND

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Oilfield Services Segment

Drilling Services
OK Drilling Services L.P.
Treo Drilling Services L.P.

Drilling Related Services
Formula Powell L.P.
FSJ L.A.N.D. Transport L.P.
Mullen Oilfield Services L.P.
Pe Ben Oilfield Services L.P.
Swanberg Bros. Trucking L.P.
Withers L.P.

Production Services
Brady Oilfield Services L.P.
E-Can Oilfield Services L.P.
Heavy Crude Hauling L.P.
Spearing Service L.P.

Specialized Services
Burnell Contractors L.P.
Canadian Dewatering L.P.
Premay Equipment L.P.
Premay Pipeline Hauling L.P.

Trucking/Logistics Segment

Cascade Carriers L.P.
Grimshaw Trucking L.P.
Kleysen Group L.P.
Mill Creek Motor Freight L.P.
Mullen Trucking L.P.
Payne Transportation L.P.
Pe Ben Bulk Transport Ltd.
Tenold Transportation L.P.